LEADERSHIP ...

... in India's Telecom Transition

Leading the Indian Market

Deregulation, newly opened market segments, falling tariffs, new technologies and new opportunities. All of these changes are reshaping the contours of India's exploding market for telecommunication services. In the past few years, the government has moved to steadily open up various segments within the telecom market to private participation and competition, including basic domestic, domestic long distance, cellular and Internet-related services. At the same time, it has pushed tariffs down and encouraged a stronger focus on the customer.

At VSNL we believe that we are perfectly placed to seize the opportunities that these changes throw up. We are already India's leading telecommunications company, with state-of-the art technology, years of experience in the Indian market, an impressive infrastructure, a strong brand name, a large and thriving customer base and a deep financial strength.

Based on those winning strategic advantages, we fully intend to maintain and grow our leadership of the Indian telecommunication market in the future. De-regulation will bring new competition, and a fast-changing market will bring new challenges. In this scenario, what will define a leader? We believe that our leadership will be based on welcoming changes and challenges, reacting quickly and nimbly to new opportunities, setting ourselves bold new benchmarks for growth and prosperity and listening closely to our customers to design a continuous stream of innovative, world-class products and services.

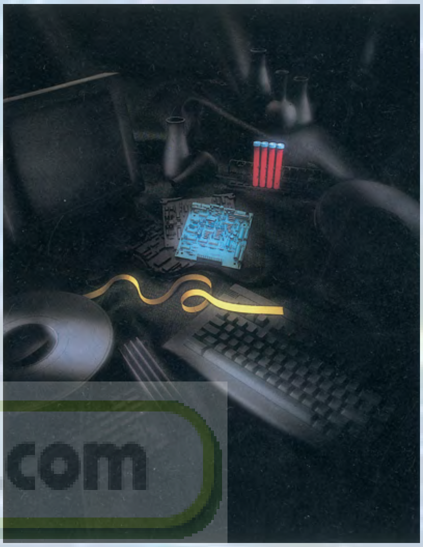
We expect that a re-shaped, more open market will offer us substantial opportunities to grow our existing businesses and enter exciting new ones. As we do that, we will aim to ensure consistent and rapid growth while emphasising the quality of our offerings. We plan to enter exciting new businesses, both in India and overseas. We are carefully selecting those businesses that will offer the maximum synergistic benefits, choosing areas where we can leverage our considerable expertise and our existing infrastructure. To support both new and existing businesses, we will continue to invest heavily in both technology and infrastructure.

We realize that VSNL's prosperity will be built on satisfying all our stakeholders, whether they are customers, employees or investors. We will expand our retail and corporate customer base swiftly, satisfying and delighting all our customers with superior products as well as with a high quality of service. At the same time, we aim to offer a rich and challenging work environment to our employees and superior returns on investment to our investors. We firmly believe that all these strategies, combined with our considerable strengths will allow us to continue to lead the Indian telecom market.

Contents

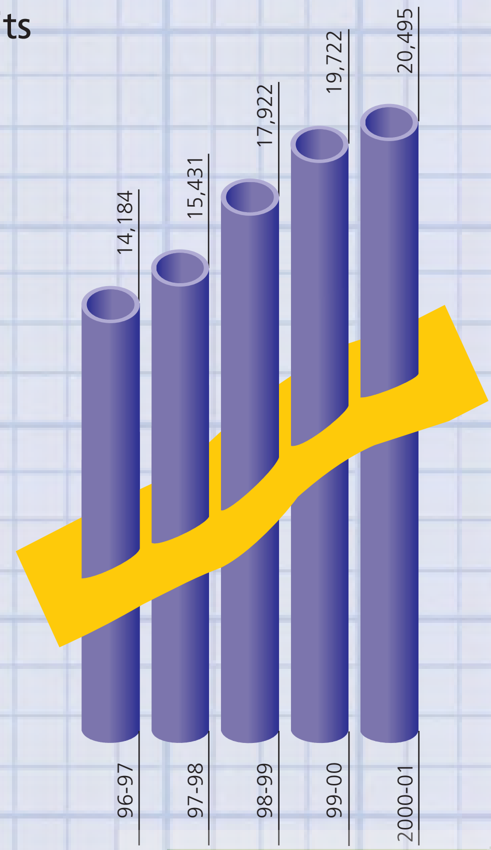
Mission Statement

"To create a global and seamless network of Information Super Highways, to connect people and computer's cost effectively and efficiently; anytime, anywhere."

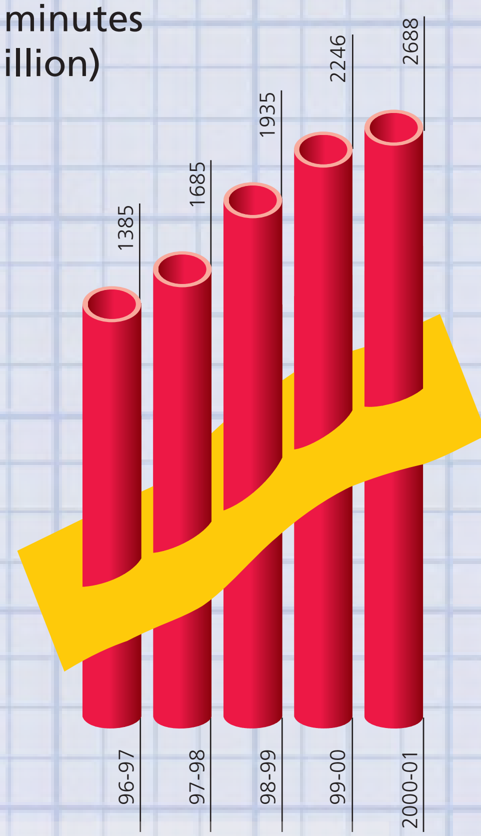


VSNL's vision is to bring the benefits of world-class communications technology to the largest number of people, creating a real and valuable improvement in the way we all live, work and interact with each other. We believe that by investing in state-of-the-art technology, we can continuously delight our customers with cost-effective and highly efficient services, provide an exciting and fulfilling environment for our workforce and satisfy our stakeholders by maximising returns on their investment in us.

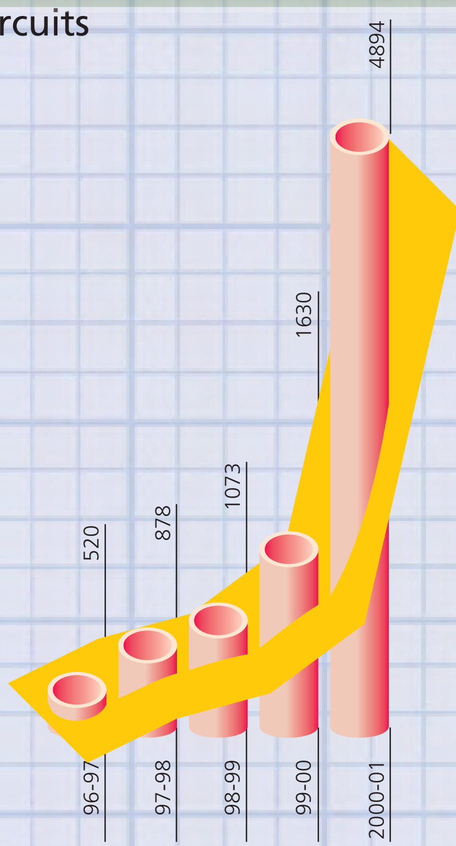
Telephone circuits



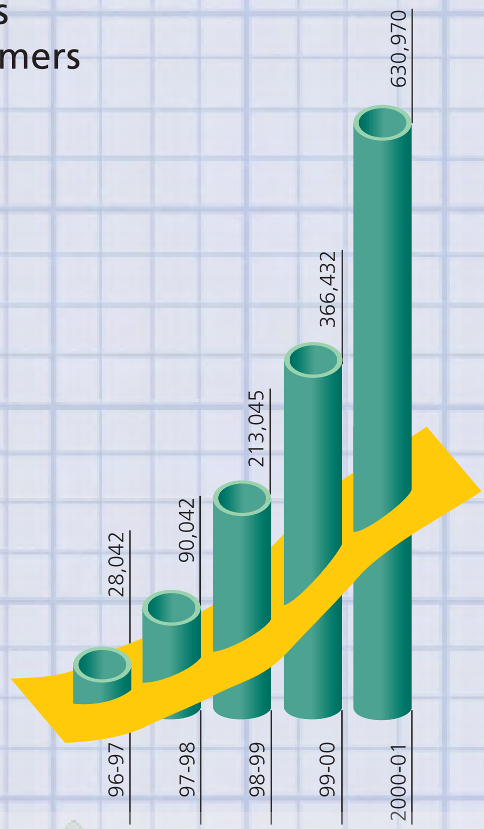
Telephone paid minutes (in million)



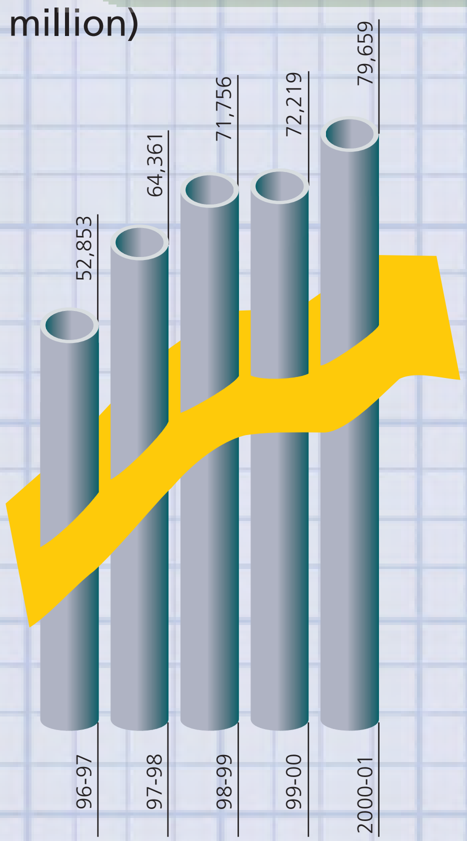
High-speed data circuits



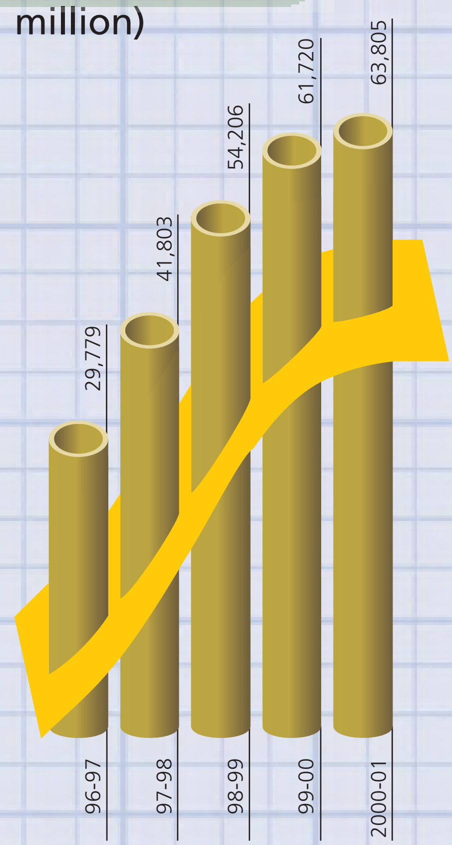
Internet access customers



Total revenue (Rs. in million)



Net worth (Rs. in million)



Chairman's Statement

When we look back at this time from the future, I believe we will view it as one of the most momentous stages in VSNL's history. The Indian telecommunications sector is witnessing rapid new changes, based on government deregulation and new technologies.

INTRODUCTION

It gives me great pleasure to welcome you all to the 15th annual general meeting of your company. When we look back at this time from the future, I believe we will view it as one of the most momentous stages in VSNL's history. The Indian telecommunications sector is witnessing rapid new changes, based on government deregulation and new technologies. VSNL is actively participating in those changes and will, in fact, be driving many of them. We have a number of exciting opportunities, both to enter new businesses and to strengthen our offerings in our existing business lines. We also have new competitors, both existing and anticipated, especially since the government has decided to terminate our monopoly in basic international telephony in April 2002. Another major development is that the government has decided to divest a 25% stake in VSNL to a strategic partner, with the right to management. By the end of this year, your company may be under private management. All these developments add up to a real chance for VSNL to continue to lead the Indian telecommunications market not by default, but by design and merit.

PERFORMANCE REVIEW

VSNL's performance in the last year has been excellent, both operationally and financially. The volume of international telephone traffic carried by the VSNL network rose by 19.71%, while specialised services recorded a revenue growth of 22.74%. However, tariffs and settlement rates - that govern payments for international telephone services between telecom providers of two different countries – continued their downward trend. Therefore, despite the volume growth, total revenue grew 10.3%, from Rs.72.22 billion to Rs.79.66 billion. Nevertheless, our profit after tax showed an excellent growth of 111.68%, from Rs.8.41 billion to Rs.17.79 billion.

CONTINUING LEADERSHIP

VSNL is currently one of the largest and strongest companies in the Indian telecommunications sector. It compares very favourably with telecom companies in the rest of Asia too. Moving forward, we expect to continue to lead the Indian telecom market not because of a monopoly, but because we are a strong player with a whole range of competitive advantages. We have excellent technology and

infrastructure that represents billions of rupees that we have invested over the last 15 years. We have a strong brand name that we are now building further. We have a large existing customer base. We have skilled and experienced employees. We believe that all these assets will keep us firmly in the top position.

VSNL intends to continue its market leadership through a three-fold strategy. First, in our existing business lines, we will continue to innovate with new products, better services and competitive pricing. Second, to ensure rapid future growth, we are planning a special thrust on some areas, in both existing and new businesses. Third, we will continue to invest in infrastructure to support both new and existing businesses.

Basic services: early termination of monopoly

In September 2000, the Government of India announced that it will terminate VSNL's monopoly in international telephone services from April 1, 2002, two years ahead of schedule. The government plans to compensate VSNL for this early termination with a package including an all-India Internet Service Provider (ISP) license, a license to enter domestic long distance (DLD) services and certain benefits with regard to this DLD license. The government has further said that it would review this compensation package if it is found insufficient in the course of time. The government asked VSNL to place the compensation package before an extraordinary general meeting held in May 2001, at which the package was approved.

Even after the international long distance business is opened up to competition, we fully expect to continue to be the market leader, given the advantages I have outlined earlier. Additionally, since this business calls for high investments, we do not expect a flood of new players. Besides, the Indian telecom market is a developing one and is growing at a rapid pace. More players could well expand the market rather than fighting for market share. We have already seen this to be true in many developing countries. Therefore, we expect a healthy growth in our core business of international telephony services. This business will continue to be the major contributor to our revenues for quite some years to come.

Internet services

At the same time, to drive our future growth, we are planning a special thrust on some areas, in both existing and new businesses. The Internet business is one. Since November 1998, the ISP business has become highly competitive: 437 new private ISPs have been licensed and approximately 98 are already in operation. Despite that, VSNL is the leader in this business with a market share of about 50% in the majorcities where we operate. Our subscriber base grew 72.19% during the year to 630,970 in March 2001. This demonstrates our ability to perform in a competitive environment and to attract, retain and delight our customers.

Until last year, we were somewhat restricted in this business because we

We expect to continue to lead the Indian telecom market...because we are a strong player with a whole range of competitive advantages.

were allowed to operate in only six cities. However, the government has now granted us an all-India ISP license, which will allow us to expand our leadership rapidly. We have already increased our presence to 12 cities and hope to reach a total of 20 cities by March 2002. To support the rapid future growth that we anticipate in this business, VSNL has expanded its Internet bandwidth from 167.1 Mbps in March 2000 to over 754.1 Mbps in March 2001. We plan to increase this to 1344 Mbps by December 2001.

We believe that we will differentiate ourselves in this market because of the quality of our offerings, supported by excellent technology and infrastructure. We have introduced a large number of innovations for both our retail and corporate clients. For corporate customers, we introduced Virtual Private Networks, VMAIL and an enterprise communication system called ALICE. For our retail customers, we have expanded our distribution channels substantially and reduced rates for Internet access. We also allowed online registration for Internet accounts, online credit card payments, global access to accounts, a package to prevent unauthorised access to accounts and many other initiatives. I would like to point out that these world-class innovations were developed entirely in-house. We will continue to innovate with new products and services to offer the best value to all customers.

TV up-linking

In addition to Internet services, we are expanding many of our other existing business lines. For example, since October 1998, VSNL has provided TV up-linking facilities to a dozen regional channels. Since the Indian government liberalised its up-linking policy last year by allowing all satellite channels to up-link from India, VSNL plans to take advantage of liberalisation to grow this business.

NEW BUSINESSES

We are also examining opportunities in brand new businesses. When choosing a new business, we look for a synergistic area that will allow us to leverage our existing infrastructure and expertise, as well as for a high-potential market with room for growth. Thus, all new businesses should help us maintain our leadership. Accordingly, we have zoomed in on domestic long distance services and direct-to-home services as well as international telecom opportunities, for a special thrust. Let me discuss each of these briefly.

Domestic long distance

The Indian government recently opened up the domestic long-distance business to competition. As part of the compensation package for the early termination of VSNL's international telephony monopoly, the government has agreed to give VSNL a DLD licence. We will also receive

To drive our future growth, we are planning a special thrust on some areas, in both existing and new businesses.

financial benefits such as a five-year reimbursement for license, entry and revenue sharing fees and exemptions from a performance bank guarantee.

By extending backwards from our international long-distance business into the DLD business, we will reap a number of synergistic benefits. For example, we will be able to retain a better share of revenues on the domestic leg of international calls and will have lower reliance on BSNL for domestic connectivity. We plan to position ourselves as a wholesale DLD service provider with a national network and retain the DLD segment of all international traffic.

Direct-to-home

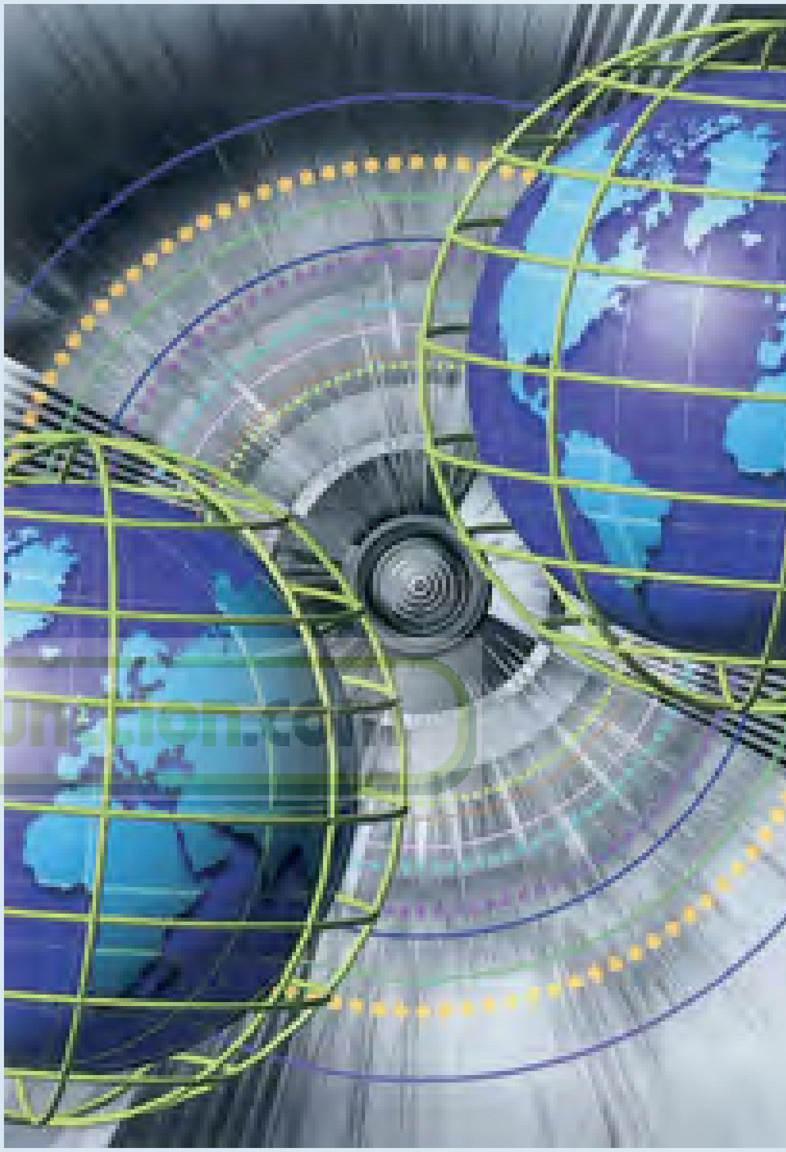
The government has also permitted direct-to-home (DTH) TV services in Ku band in India. This will allow TV signals to be distributed via satellite directly to a viewer's home. We see this area as an extension of our existing TV up-linking business. Once we receive a positive report on financial viability, we propose to commence this service within the current financial year based on a combined DTH and interactive Internet, neutral up-linking platform.

International telecom initiatives

Your company intends to become a global player by extending its expertise internationally. We are exploring opportunities in basic and cellular telephony in select overseas markets. We have already signed one joint venture agreement with MTNL, Telecommunications Consultants India Ltd. (TCIL) and Nepal Ventures Private Limited, to offer basic services in Nepal based on wireless-in-local-loop technology. This joint venture, named United Telecom Limited is also allowed to operate national and international long distance telephone services. This year, the company will install a WLL network for 150,00 subscribers in Nepal's top 10 cities.

INVESTING IN INFRASTRUCTURE

To support all these initiatives in basic telephony, value added services and new business areas, we will continue to invest in infrastructure. VSNL expects to spend approximately Rs.20 billion by the end of the current financial year, which will add up to a total investment of Rs.59.12 billion in the five-year period up to March 2002. Briefly, our plans include increasing the number of international circuits; increasing bandwidth; continuing our investments in satellite transmission capacity and undersea fibre optic cables; creating high capacity cyber ports for hosting and connectivity services; and building a low-cost, fully-integrated digital network across the country with asynchronous transfer mode (ATM) switches, to allow better transmission of voice and broadband data traffic.



We will continue to innovate with new products and services to offer the best value to all customers.

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CAPITAL MARKET DEVELOPMENTS

When your company's American depository receipts began trading on the New York Stock Exchange on August 15, 2000, we made history by becoming the first Indian public sector unit (PSU) to list on any US stock exchange. VSNL had already completed the largest PSU GDR programme in 1997, with 37.80 million GDRs. As I have already mentioned, the government has now decided to divest 25% stake in VSNL to a strategic investor.

FUTURE OUTLOOK

The Indian telecom industry is benefiting from swift de-regulation, new business opportunities and high growth rates in almost every service segment. We expect that the penetration of all types of telecom services will improve substantially and that the demand for value added services will rise fast. The new telecom policy expects 125 million new lines to be added by the year 2010. According to all estimates, Internet usage and e-commerce will multiply rapidly. Additionally, exciting new opportunities will arise in various areas, including 3G services, wireless, mobile satellite services and broadcast services. I believe that VSNL will benefit enormously from these developments and is in an ideal position to seize new opportunities as they arise.

CONCLUSION

In conclusion, I want to personally thank every member of the VSNL team for his or her contribution and commitment. They are the real key to keeping VSNL in its position as India's premier telecommunications company.

I would also like to thank the members of our board for their energy and their strategic support. As directors, S/S. Subodh Bhargava, Ashok Wadhwa, N.R. Narayana Murthy, H.P. Wagle, B.R. Khurana, Smt. S.A Tirmizi, C.V. Rajan, and Smt. Sadhana Dikshit have generously contributed both their time and their perspectives to VSNL and the company has benefited tremendously. I would also wish to record my gratitude for the help, guidance and support extended to VSNL by the Telecom Commission and its chairman, Mr. Shyamal Ghosh, in particular.

S.K.Gupta
Chairman and Managing Director

Date : 27th September, 2001
Place : Mumbai

Directors' Report

Dear Shareholders,

Your directors are pleased to present the annual report and audited accounts for the financial year ended March 31, 2001. In the last year, your company turned in an excellent operational and financial performance and continues to be one of India's best-run companies. In 2000-01, VSNL qualified to be rated "EXCELLENT" for the eighth successive year among Memorandum of Understanding (MoU) signing public sector enterprises. VSNL was also awarded the status of international super star category service export house by the Director General of Foreign Trade, one of only three service companies in India to get such a status. This award, based on foreign currency earnings performance, entitles VSNL to a host of benefits such as speedy customs clearance, import duty concessions, and exemption from submitting various documents and bank guarantees.

FINANCIAL PERFORMANCE

Based on significant operational growth and despite increased competition and considerable tariff reductions, your company recorded a substantial financial growth in the last year. The volume of international telephone traffic transmitted over the VSNL network rose by 19.71%, while specialised services continued their healthy growth, showing a revenue rise of 22.74%. Rates were reduced in basic and value added services in an initiative to provide competitive, best-value services to customers, as well as for regulatory reasons. Therefore, despite the high volume growth, total revenue grew at a more modest 10.3%, from Rs.72.22 billion to Rs.79.66 billion.

The company's profit before tax rose from Rs.19.43 billion to Rs.24.70 billion, while the profit after tax rose sharply by 111.69%, from Rs.8.40 billion to Rs.17.79 billion. During the year, VSNL announced a bonus issue in the ratio of two shares for every share held. Investor returns were high, as earnings per share (EPS) on the post-bonus capital were Rs.62.41 per share. On a pre-bonus capital, this figure would have been Rs.187.24, more than double the previous year's EPS of Rs.88.44. VSNL continues to be a zero-debt company, while its net worth increased 3.38% in 2000-2001. Your company's strong cash reserves will allow VSNL to make substantial new investments without necessarily taking on a debt burden.

TABLE 1

Audited financial results for the year 2000-01

(Rs. in Million)

Description	2000-01	1999-2000*	%change
Traffic revenue (basic services)	**64,307**	62,822	2.36
Revenue from specialised services	**7,508**	6,117	22.74
Revenue from Intelsat and Inmarsat	**1,160**	737	57.39
Other income	**6,684**	2,543	162.84
Total Revenue	**79,659**	**72,219**	**10.30**
EBITDA margins	**26.27%**	25.47%	-
Interest	**0**	11	-
Depreciation	**1,162**	934	24.42
Profit before tax	**24,695**	**19,427**	**27.11**
Tax	**(7,887)**	(6,375)	23.72
Extraordinary Item:			
Write down of Investments in ICO	**(52)**	(5127)	(98.99)
Prior years adjustment	**1,032**	478	115.90
Profit after tax	**17,788**	**8,403**	**111.69**
Earnings per share (Rs.)	**62.41**	88.44	(29.44)
Net Worth	**63,805**	61,720	3.38
Dividend per share (Rs.)	**50.00**	8.00	525

* Previous year's figures have been regrouped wherever necessary.

Dividends

In view of your company's strong financial position and the positive outlook for the future, your directors are pleased to recommend a normal dividend at the enhanced rate of Rs.10 per share and a special dividend at the rate of Rs.40 per share to coincide with the first year of NYSE listing. This adds up to a total dividend of Rs.50 on every share of Rs.10 for the financial year ended March 31, 2001. The directors propose that profits be appropriated in the following manner:

TABLE 2

DESCRIPTION		Amount (Rs. in million)
Amount available for appropriation		
- balance carried forward	137.95	
- Profit for the year	17788.31	17926.26
Less:		
- Normal Dividend @ 100% (on the paid-up capital of Rs.285 Crore).	2850.00	
- Special Dividend @400% (on the paid-up capital of Rs.285 Crore)	11400.00	
- Tax on proposed dividend	1453.50	
- Transfer to General Reserve	1778.90	17482.40
Surplus carried to Balance Sheet.		443.86

TERMINATION OF MONOPOLY AND COMPENSATION

In September 2000, the Government of India announced its intention to allow private players to provide international telephone services from April 1, 2002, thus terminating VSNL's monopoly two years ahead of schedule. The government plans to compensate VSNL for this early termination with the following package:

- A licence to operate domestic long-distance (DLD) services.
- Reimbursement by the government for all license fees, entry fees and revenue sharing fees (net of taxes) that VSNL may have to pay with respect to the DLD license, for five years with effect from April 2001.
- Exemption from the performance bank guarantee of Rs.4 billion with respect to the DLD license.
- A category 'A' Internet Service Provider (ISP) licence, which will allow VSNL to provide Internet access all over the country.
- The government may also consider additional compensation if necessary, when a detailed review is undertaken.

Your company has accepted the government's decision to terminate VSNL's monopoly before the year 2004. In February 2001, the government asked VSNL to hold an extraordinary general meeting and place the existing package before the shareholders for their approval. The package was approved at the meeting, held in May 2001.

DISINVESTMENT

The Government of India currently holds a majority stake of 52.97% in VSNL's equity. A crucial development is the decision of the government to divest a 25% stake to a strategic partner, along with the right to management. The government proposes to simultaneously disinvest 1.97% to VSNL employees. VSNL is expected to be under private management within the year. After a successful divestment, certain procedures that are currently mandatory will no longer be applicable.

STRATEGIC OBJECTIVES

Your company is India's largest telecommunications company and is considered one of the country's most efficient public sector companies. VSNL is committed to becoming India's leading integrated information support services provider, while remaining foremost provider of international telecommunication services. To ensure this, our strategy is three-fold. First, as the market leader in its existing business lines, VSNL will continue to offer increased value to customers through improved and new services, as well as by lowering costs and therefore rates where necessary. Second, your company is forging ahead with plans in a few thrust areas. These include growth in some current business areas as well as plans in related new businesses that will leverage our existing expertise and infrastructure. Third, to support both existing and new businesses and retain our competitive edge, VSNL will continue to make major investments in technology, infrastructure and service.

BASIC SERVICES : TELEPHONY

Basic telephony remains our core business. As India's only international telecom services provider, VSNL offers telephone services to 237 international destinations and operates seven international gateways in India. The number of telephone circuits increased from 19,722 in March 2000 to 20,495 in March 2001. During the year, international telephony traffic rose from 2.2 billion paid minutes in 1999-2000 to 2.7 billion paid minutes, a 19.71% rise.

Basic telephony will remain a significant part of your company's business, with a significant growth potential. The demand for basic international services has risen steadily over the last decade. We expect this growth to continue, given India's increasing globalisation including its rising foreign trade and the growing number of Indian expatriates settled abroad. Lower tariffs and better telecom penetration in India will also accelerate demand.

The regulatory trend towards lowering tariffs on international calls continued in the last year also. In keeping with global trends, the TRAI lowered tariffs by up to 20% for international calls. VSNL recognises that lower tariffs will satisfy customers and increase volumes. This could also increase the number of outgoing calls from India. Historically, the number of calls coming into India far exceeds the outgoing calls. The incoming to outgoing call ratio rose from 3.74 in 1999-2000 to 4.10 in 2000-2001. We expect that tariffs will fall further in the future. In the long term, this will help drive up volumes and make VSNL a high-volume, low-cost service provider.

For the same reasons, the fall in 'settlement' or 'accounting rates,' which govern payments for international telephone services between telecom providers of two different countries, could also benefit your company. These rates, generally negotiated annually, have been falling in recent years. Recognising the trend towards more such future reductions, VSNL is moving towards a uniform settlement with all international carriers located in a region.

Payments received from foreign carriers are shared with DOT/BSNL under revenue sharing arrangement which is effective upto 31 March 2002. VSNL's share is assured between Rs. 9/- and Rs. 11/- per minute. In case foreign exchange fluctuation in a year is more than 10% either way, the revenue sharing arrangement can be reworked. We expect that in the future, VSNL's margins per telephone minute will decline, but profits will be protected by the increase in volumes.

Even after international telephone services are opened to competition from April 1, 2002, VSNL is confident that it will remain India's dominant provider of these services because it has strong competitive advantages in this market. Your company has built a superior, modern infrastructure that provides a significant head start over any new entrant. VSNL's cumulative investments in technology and infrastructure over the last 15 years have given us assets of Rs.24.13 billion, which it will take a competitor a while to match. Our ready access to submarine cable and satellite bandwidth and our existing bulk volumes will allow us to be a low cost provider and still maintain profitability. VSNL also benefits from long standing relationships with almost every major international carrier as well as exclusive arrangements with a number of carriers and with the domestic telecommunications providers MTNL and BSNL.

Your company intends to build on these advantages through a series of initiatives. These include strategic tie-ups with more leading international carriers to ensure a significant share of incoming traffic; leveraging the VSNL network to provide cost-effective service to customers; and installing Internet telephony gateways to VSNL's backbone to minimise any possible revenue loss from emerging alternative technologies. Your company also plans to build VSNL's brand further through a retail marketing program and through new products such as the "Indiacard" (a prepaid service for Indians abroad), to improve convenience and value to customers.

VALUE ADDED SERVICES

VSNL currently offers a range of value added services, and we see these as a key platform for future growth and leadership. These include services in the areas of Inmarsat satellite mobile telecommunications, Electronic Data Interchanges, Managed Data Network Services, video conferencing, television relay services, packet switched data transmission and e-mail services. VSNL also arranges dedicated international leased lines for customers who need reliable 24-hour communications from a fixed point in India to a fixed point overseas. The total number of such leased lines grew from 161 (64 kbps equivalent 178 circuits) in March 1995 to 835 (64 kbps equivalent 4898 circuits) in March 2001. Internet services are a particular thrust area, as discussed a little later.

VSNL's revenue from such value added services was Rs.7.51 billion in the year 2000-2001 against Rs.6.12 billion in the previous year, a rise of 22.74%. We achieved this growth despite sharp reductions in tariffs for Internet and IPLCs during the year. To improve the penetration of global communication facilities and provide the best possible value to customers, VSNL has reduced by 40% the cost of its services at stations serviced by terrestrial or satellite leased line links. This is in keeping with the 70% reduction we offered on leased line tariffs at Mumbai and Cochin. VSNL also reduced tariffs for web hosting and co-location to customers using our servers.

Worldwide, value added services - largely data services -are growing much faster than voice telephony services. We anticipate that these services will contribute significantly to your company's future growth and profitability. Thus, while basic telephony revenues and volumes will continue to increase in absolute terms and remain the dominant business line for some years, VSNL expects value added services to show higher growth rates and account for an increasing share of revenue. In the fiscal year 2000-2001, basic telephony accounted for as much as 90.27% of VSNL's total traffic revenues. However, the share of telephony in traffic revenues is gradually reducing, demonstrating the growing importance of specialised and value added services.

TABLE 3

Particulars	**Revenue (Rs. in Million)**	**Percentage**
Telephone	64,828	90.27
Telex & Telegraph	254	00.35
Leased Channels	3,134	04.36
Internet	2,980	04.15
Others	619	00.87
Total Traffic Revenue	**71,815**	**100.00**

THRUST BUSINESS AREAS

As VSNL reshapes itself into India's leading provider of a range of telecommunications services, we plan a special focus on certain thrust areas. This means strengthening our current presence in areas like Internet services or TV up-linking. It also means diversifying into related businesses where we can leverage our existing experience, infrastructure, and relationships and take full advantage of the Indian government's liberalisation initiatives. These new areas include domestic long distance services and direct-to-home services. Thus, VSNL will now focus on the following thrust areas:

Internet-related Services

Internet-related services continue to be an exciting growth area for your company. VSNL is confident that it will retain its status as the leading provider in this business. We currently have a market share of 50% in the cities in which we offer services and an all-India market share of around 36%. The Internet Service Provider (ISP) business has become highly competitive. Since November 1998, about 437 new private ISPs have been licensed and nearly 100 are in operation. Despite that, your company's subscriber base for Internet access grew 72.19% from 366,432 in March 2000 to 630,970 in March 2001. VSNL also received the best ISP award from PC Quest magazine in 2000.

Until last year, VSNL was allowed to provide Internet dial-up access in only six cities. As part-compensation for the early termination of VSNL's international long-distance monopoly, the government has now granted VSNL an all-India ISP license. Therefore, VSNL has embarked on a project to extend its Internet access backbone. We have already rolled out services in six more cities and intend to raise our total coverage from 12 to 20 cities by March 2002. Your company also has the largest dedicated Internet network in India providing 1,064 Internet leased line connections. VSNL provides the key hosting services for a number of corporate and financial sites in India. Although the government has allowed private ISPs to set up their own gateways, over 90 of them continue to choose VSNL's gateway services because of the cost, quality and reliability that our network offers.

VSNL expects that the demand for Internet services from both retail and corporate users in India will continue to grow, driven by improved infrastructure, declining access costs and increasing awareness of the benefits of the Internet among business and retail users. This growth, combined with increased bandwidth

availability, is expected to spur a sharp rise in data traffic volumes and in the demand for value-added services including web hosting, virtual private networks, video conferencing and a host of broadband applications.

For the high-volume corporate customer segment, VSNL plans to provide significant value including differentiated service levels, attractive pricing and a range of value-added data services in association with foreign carriers. At the same time, we continue to please our retail customers with new offerings designed to improve service and satisfaction. Thus, in the last year your company introduced a host of new services for both retail and corporate customers. For corporate customers, we introduced virtual private networks, VMAIL and an enterprise communication system called ALICE: An Integrated Communication Suite for Corporates. For our retail customers, we expanded our distribution channels substantially, and offered innovations including online registration for Internet accounts, online credit card payments, reduced rates for Internet access, global access to accounts, a package to prevent unauthorised access to accounts and many other initiatives.

VSNL is also committed to continuously adding bandwidth capacity and upgrading equipment and network infrastructure to keep service levels far superior to those of competitors. VSNL's Internet backbone is based on highly advanced network management systems and Internet exchange switches. The Andover News Line Network, an independent rating agency, has consistently rated it as one of the best performing backbones in Asia and the Far East. To stay ahead of demand, your company expanded its Internet bandwidth from 167.1 Mbps in March 2000 to over 754.1 Mbps in March 2001 and is set to expand to almost 1344 Mbps by December 2001.

TV Up-linking

The Indian government liberalised its up-linking policy on July 25, 2000 by allowing all satellite channels to up-link from the country. Before that, most large satellite channels were up-linking from abroad, while many regional and smaller channels used VSNL's facilities. VSNL began providing television up-linking facilities in October 1998 and already serves 12 regional channels. VSNL's satellite broadcast operations on the INSAT-2E (APR) satellite are provided through our Standard-A earth station in Chennai, and earth stations in New Delhi and Ernakulam.

The new policy will help VSNL to expand its customer base in this segment. The policy allows companies with a minimum Indian ownership of 51% to set up up-linking hubs or teleport facilities for their own use or for hiring out to other broadcasters. Despite this, we expect that smaller channels will prefer to use VSNL's services because of the cost and efficiency advantages that we offer.

Domestic Long Distance (DLD)

As a part of its continuing liberalisation and deregulation of the telecommunications market, the Indian government recently announced guidelines and eligibility criteria for entry into the domestic long-distance business, which is currently a monopoly of the public sector company BSNL. According to a recent report commissioned by TRAI on DLD services in India, this market is estimated at Rs.151 billion in 2001-2002.

As partial compensation for the early termination of VSNL's monopoly in international long-distance services, the government has agreed to give VSNL

a DLD licence and certain financial benefits with regard to the license, as already discussed. For VSNL, the DLD business is a logical extension of its international long-distance business and offers numerous benefits. It will allow VSNL greater retention of the revenue pie on the domestic leg of an international call. Owning a network would mean lower dependence on BSNL for domestic connectivity. VSNL will be able to retain a greater share of international calls, once competition is allowed in international voice communications.

Accordingly, VSNL plans to position itself as a wholesale DLD service provider with a national network, with a rollout plan that provides synergies with its international switched services operations. VSNL plans to acquire or install, as necessary, 'lit/dark' fibre across India, which can be used both for voice and Internet traffic. Your company also plans to use its existing exchange capacities for DLD traffic, and to retain the DLD segment of all international traffic. VSNL believes that it will also enjoy the benefit of reduced overheads by using its current resources including buildings and administration.

Direct-to-Home

In November 2000, the Indian government decided to permit direct-to-home (DTH) TV service in Ku band in India. DTH broadcasting refers to the distribution of multi channel TV programmes in Ku band using a satellite system, by providing TV signals direct to subscribers' premises without passing through an intermediary such as a cable operator. According to estimates, DTH could establish a subscriber base of three million by the year 2003 and show revenues of Rs.18 billion. Under government guidelines, three categories of DTH services may be provided in India:

- DTH service that have only TV / video channels as content
- Interactive DTH services using downstream Internet
- Interactive DTH services with two-way Internet using satellite dishes

For your company, this business is an extension of our existing TV up-linking business. Subject to positive financial viability report, we propose to enter the service based on a combined DTH and interactive Internet, neutral up-linking platform, by focusing on two key areas: infrastructure and marketing. VSNL already has Ku band transponders in Delhi and Chennai. It plans to supplement its existing infrastructure by acquiring additional Ku band transponders and by setting up a teleport. For marketing, VSNL plans tie-ups with content providers (TV channels) for free-to-air channels and play back facilities, and tie-ups with other partners for subscriber management and billing. VSNL is currently developing a business plan based on feedback from channel operators.

International Telecom Initiatives

VSNL is also examining opportunities in basic and cellular telephony abroad. To this end, VSNL, Mahanagar Telephone Nigam Ltd. (MTNL) and Telecommunications Consultants India Ltd. (TCIL), have signed a joint venture agreement with Nepal Ventures Private Limited (NVPL), to offer wireless-in-local-loop (WLL) based basic services in Nepal. MTNL, VSNL and TCIL will hold 26.66% each in the consortium, named United Telecom Limited (UTL), while NVPL will hold 20%. This year, UTL plans to install a modern WLL network for 150,000 subscribers in Nepal's top 10 cities. Besides basic services, UTL can also operate national and international long distance telephone services.

As part of its strategy to explore new opportunities in India and abroad, as well as to strengthen its infrastructure, VSNL has several joint ventures with domestic and foreign partners. For a detailed discussion of the status of VSNL's strategic joint ventures initiatives, like Intelsat, Inmarsat, Telstra Vishesh Communications Ltd. and New Skies Satellite NV, please see annexure I to this report.

INVESTING IN INFRASTRUCTURE

A key platform for continuing leadership in all areas is a robust, state-of-the art infrastructure that will provide stable and superior services. Your company has already invested billions of rupees in a powerful combination of satellites, submarine cables and microwave systems to provide seamless, high-quality connectivity. To ensure this, VSNL has a web of international alliances. Your company receives satellite capacity from two international satellite systems, Intelsat and Inmarsat, discussed in annexure I to this report. VSNL's other strategic investments and alliances include the IOCOM cable (Chennai-Penang); the Gulf Cable (Mumbai-Fujairah); the Southeast Asia-Middle East-Western Europe 2 (SEA-ME-WE 2) optic fibre cable connecting 14 countries; and the SEA-ME-WE 3 cable system that lands in 39 countries. VSNL has bought capacities in the Fibre Optic Link Around the Globe (FLAG) cable system with 19 operational landings in 13 countries which links Asia and Europe. VSNL is also an investor in the South Africa and the Far East (SAFE) project, a broadband, high-capacity fibre optic system to connect Southeast Asia to Africa and the Mediterranean. These investments ensure a formidable strategic leadership position.

Your company will continue to invest in infrastructure to support both basic telephony and value added services. To this end, VSNL expects to spend approximately Rs.20 billion during the current financial year out of the capital outlay of Rs.59.12 billion for the five-year period ending March 2002. To improve the capacity and quality of international telecom services, your company will

increase the number of its international circuits. VSNL plans to commission a wholly owned, low-cost, fully integrated digital network across the country that will include installing Asynchronous Transfer Mode (ATM) switches, which enable more efficient transmission of voice and broadband data traffic. This project will also support VSNL's entry into the new business areas discussed above.

Since specialised and value added services involve the transmission of data rather than only voice traffic, VSNL is expanding and upgrading its infrastructure to provide bandwidth for these services. In the coming months, VSNL will commission earth stations at Hyderabad, Greater Kailash (New Delhi), Patna and Gandhinagar, and commission the SAFE cable system at Cochin. VSNL will continue to acquire interests in undersea fibre optic cables and satellite transmission capacity, matching current and future requirements.

Even though the creation of new dotcom companies has slowed worldwide, there is substantial demand for Internet-related services from existing web companies as well as from corporate users implementing an Internet strategy. To serve these expanding needs, your company is creating high capacity cyber ports to provide quality hosting and connectivity services to India's Internet community. VSNL's telehousing and managed hosting services already cater to Indian and international companies seeking reliable, low-cost servers in the region to host their websites. To gain an increasing share of such business, VSNL is commissioning an Internet server farm at Vashi near Mumbai with 20,000 square feet of space as well as facilities in seven other locations, to house and host hundreds of servers.

CAPITAL MARKET DEVELOPMENTS

VSNL's American depository receipts began trading on the New York Stock Exchange with effect from August 15, 2000. Your company thus made history by becoming the first Indian public sector unit to list on any stock exchange in the US.

VSNL is already the first PSU to complete the largest GDR programme, in 1997 with 37.80 million GDRs. In 1999, when many Indian companies stayed away from accessing the international capital markets, VSNL was able to issue a second tranche of 20 million GDRs overseas by way of divestment by the government.

The Government of India proposes to disinvest a 25% equity stake to a strategic investor along with management control. The government proposes to simultaneously disinvest 1.97% to VSNL employees. The disinvestment process is expected to be completed within the current year.

The Securities and Exchange Board of India (SEBI) mandated the trading of VSNL shares only in dematerialised form with effect from January 4, 1999. Over 98% of the divested shares available in the market are presently held in electronic form. This makes your company one of India's largest electronically-held listed companies. As of March 31, 2001, VSNL had 285 million shares outstanding and a market capitalisation of Rs.83.22 billion (USD 1.77 billion). VSNL is now included in the list of 31 companies in which SEBI has permitted options trading effective July 2, 2001.

FIXED DEPOSITS

Your company has not accepted any fixed deposits and therefore no amount of principal or interest was outstanding as of the balance sheet date.

HUMAN RESOURCES

Your company recognises that its employees are its most valuable asset. Despite the keen competition for people resources, your company has been able to attract and retain some of the country's top talent by offering challenging job opportunities and career growth.

On March 31, 2001, your company employed 2,991 people against 3,014 employees on March 31, 2000. Of these, 1,177 (1,126 last year) were executives and 1,814 (1,888 last year) were non-executives. There were 390 women employees (133 executive and 257 non-executives) in the company on March 31, 2001 against 381 (120 executives and 261 non-executives) on March 31, 2000.

During 2000-01, eight training programs were organised at VSNL's training institute at Pune, benefiting 189 employees; 248 employees benefited from different training programs conducted in India; 12 employees were sent abroad for training; 12 employees were trained in operations and finance under the CCCA Bilateral Program; and six employees in India and two employees abroad were trained under the CCCA Multilateral program.

RESERVATION POLICY

Your company follows the government policy regarding the employment of scheduled castes, scheduled tribes and other backward classes. As of March 31, 2001 the company employed 650 scheduled caste employees (against 673 last year), 190 from scheduled tribes (191 last year) and 178 from other backward classes (165 last year).

INDUSTRIAL RELATIONS

Industrial relations were cordial and peaceful during the last year, with no strikes or lock-outs. VSNL's employees are reacting positively to the eventual privatisation of the company. In accordance with DPE and ministerial guidelines, the pay scales and the allowances of executives were revised effective January 1, 1997. In respect of non-executives, an agreement between VSNL's management and the Federation of VSN Employees' Unions on pay scales and certain allowances

through bilateral negotiation was signed and implemented for a period of ten years, effective January 1, 1997. Negotiations on perks, allowances and other issues pertaining to employees have been finalised and implemented. To encourage better performance, productivity and customer satisfaction, the management has approved a performance reward scheme for all the employees, payable from April 1, 1999.

OFFICIAL LANGUAGE IMPLEMENTATION

Your company follows the government's guidelines on the official language policy. Various manuals, formats and brochures have been translated into Hindi and employees have been provided with the Windows-based bilingual software 'WINKY.' An incentive scheme was introduced to encourage employees to use Hindi in their official working and training programmes and workshops to improve Hindi knowledge were organised. To celebrate the 50th anniversary of the national language, your company organised 'Hindi Days' and 'Hindi Fortnights' in all centres and branches.

STATUTORY INFORMATION AND DISCLOSURES

During the year, no employee was in receipt of remuneration in excess of the limits set under the provisions of Section 217 (2A) of the Companies Act, 1956, and read with Companies (Particulars of the Employees) Amendment Rules 1988. There are no particulars to be disclosed pertaining to the year under review, in respect of R&D, technology absorption and so on as required under Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988. For the purpose of Form 'C' under the said rules, foreign exchange earnings were equivalent to Rs. 48,673 million and foreign exchange outgo was equivalent to Rs.17,199 million.

THE BOARD OF DIRECTORS

The board of VSNL has been re-constituted to make it a full-fledged Navratna company. The board includes three whole-time directors including the chairman and managing director (CMD); two representatives from the DoT and four renowned personalities from industry nominated by the government.

Mr. S K Gupta, CMD, heads your company and the board of directors. Mr. Gupta took over the reins of VSNL on September 7, 1999 as its CMD after more than three decades of service with the DoT.

Mr. Rajneesh Gupta, director (network) and Mr. R.S.P Sinha, director (finance) were appointed as whole-time directors in the schedule 'B' scale. These directors joined your company on November 23, 1998, and January 14, 1999 respectively.

Mr. Subodh Bhargava, Mr. Ashok Wadhwa, Padmashri N R Narayana Murthy and Mr. H. P. Wagle were appointed as directors on the board with effect from December 15, 1998.

During the year Mr. B.R. Khurana and Mrs. S.A. Tirmizi, the directors from the DoT were replaced by Mr. C.V. Rajan and Mrs. Sadhana Dikshit. Mr. C.V.Rajan resigned from the board with effect from August 6, 2001 subsequent to a letter received from the DoT changing the nomination of Mr. Rajan to that of Mr. PV Vaidyanathan who has been appointed as director in casual vacancy under the provisions of Companies Act, 1956. Mr. Vinoo Goyal and Mr. Amitabh Kumar ceased to be directors on the board on April 22, 2001 and June 3, 2001 respectively.

In accordance with the provisions of the Companies Act, 1956, and the Articles

of Association of the company, Mr. R.S.P. Sinha, Mr. Ashok Wadhwa and Mr. H.P. Wagle will retire by rotation at this annual general meeting.

None of the directors of the company are disqualified from being appointed as directors as specified in Section 274 of the Companies Act, 1956 as amended by the Companies (Amendment) Act, 2000.

MANAGEMENT DISCUSSION AND ANALYSIS

In accordance with the listing agreement, the management discussion and analysis is attached to the directors report and forms a part of this report.

DIRECTORS' RESPONSIBILITY STATEMENT

In accordance with the provisions of Section 217(2AA) of the Companies Act, 1956, your directors state that:

- In the preparation of accounts, the applicable accounting standards have been followed.
- Accounting policies selected were applied consistently. Reasonable and prudent judgements and estimates were made so as to give a true and fair view of the state of affairs of the company as of March 31, 2001 and of the profit of the company for the year ended on that date.
- Proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the company and for preventing and detecting frauds and other irregularities.
- The annual accounts of the company have been prepared on a going concern basis.

ACKNOWLEDGMENTS

The directors would like to express their appreciation and thanks for the hard work, diligence and fidelity of every employee. The directors also note that the awareness campaign for good customer service, innovation, efficiency, and reliability has continued to receive support, co-operation and commitment from employees at all levels.

The directors appreciate the support of various ministries and departments of the Government of India, the DoT, Department of Telecom Services/Bharat Sanchar Nigam Limited and Mahanagar Telephone Nigam Limited.

Finally, the directors are grateful to the company's stakeholders and partners including its customers, shareholders, bankers, solicitors, suppliers and foreign telecom administrations for their support.

On behalf of the Board of Directors

S. K. Gupta
Chairman and Managing Director

Dated : 18th August 2001

Registered Office
Videsh Sanchar Bhavan
Mahatma Gandhi Road
Mumbai - 400 001.

Management Discussion and Analysis

INDUSTRY BACKGROUND

Until the mid-1980's, the telecommunications sector in India was a monopoly managed by the public sector. The Government of India controlled virtually all telecommunication services through the Department of Posts and Telegraphs of the Ministry of Communications. In the mid-1980s, faced with the rapidly increasing demand for telecommunication services and equipment, the government began reorganising the sector to facilitate the rapid introduction of new technology and stimulate growth. Therefore, the Department of Posts and Telegraphs was divided into the Department of Telecommunications (DoT) and the Department of Posts.

As part of the reorganisation, VSNL was incorporated on March 19, 1986 as a wholly-owned government company. On April 1, 1986 VSNL took over the control and management of all international telecommunication services from the Overseas Communications Service, a department of the Ministry of Communications. Mahanagar Telephone Nigam Limited (MTNL) was established at the same time to operate local telephone and telex services in Mumbai and Delhi. The DoT retained the responsibility for providing telecommunication services throughout the rest of India. The DoT also assumed regulatory authority over VSNL, MTNL and other public sector enterprises and acted on the government's behalf as the sole shareholder of such entities.

The Telecom Commission was established in 1989 as an executive body under the Ministry of Communications to make and implement policy decisions. In 1997, the Telecom Regulatory Authority (TRAI) was established to provide adequate safeguards to ensure fair competition and protection of consumer interests. As part of the National Telecommunication Policy (NTP) 1999, the government separated and corporatised the services function of the DoT as Bharat Sanchar Nigam Limited, leaving DoT with its regulatory role.

The Indian telecommunications industry has changed substantially over the last decade. The government launched an economic liberalisation programme in 1991. Through various policy initiatives and successive National Telecommunication Policies (NTP) in 1994 and 1999, it reaffirmed its commitment to take India to international standards in communications by 2010.

STATUS OF JOINT VENTURES

VSNL participates in a number of strategic joint ventures to strengthen its infrastructure and become a truly global player:

Intelsat

Intelsat is a consortium formed in 1964 that owns and operates satellite communication systems. It now offers Internet, broadcast, telephony and corporate network solutions to customers in over 200 countries through its network of 20 geostationary satellites. It currently has 10 new next-generation satellites under construction.

In November 2000, Intelsat's member nations formally decided to privatise it to increase flexibility. Accordingly, on the basis of a March 2001 share redetermination of 5.420188% and subsequent adjustments thereon, VSNL

was allotted a share holding of 5.409188% shares in Intelsat Limited on its privatisation on July 18, 2001. This kept VSNL in its 2nd position in the 145-member consortium. Mr. S.K.Gupta, CMD VSNL was elected on July 19, 2001 as a non-independent director in the initial board of Intelsat Limited, which is a Bermuda resident company. This appointment offers VSNL and India an important and effective platform to participate in Intelsat's future direction.

Inmarsat

The International Mobile Satellite Organisation (Inmarsat) was an Inter-Governmental Organisation (IGO) with membership from 88 countries, providing satellite mobile communication services in air, on land, and at sea. Inmarsat was converted into a National Law Company (UK), on April 15, 1999. The DoT approved VSNL's participation in the private company, and VSNL's investment in the holding Company viz Inmarsat Ventures plc remains the same, at 2.02%. Privatisation aims to allow Inmarsat to remain competitive in the fast-changing global mobile communication sector and attract investment for future projects.

Telstra Vishesh Communications Limited (TVCL)

This is a joint venture company formed by VSNL, IL&FS, and Telstra, with investment equity in the ratio of 40:40:20 at the time of formation. Currently, VSNL holds Rs.92 million out of the company's total paid up capital of Rs.314 million. TVCL has invested in a hybrid VSAT project and diversified into consultancy and facility management services and turnkey VSAT projects for large organisations.

New Skies Satellite N.V.

A Netherlands-based spin-off company called New Skies Satellites N.V. was carved out of Intelsat in 1998 with a number of Intelsat satellites transferred to NSS. VSNL had received 301,215 NSS shares out of the nine million ordinary shares distributed among the Intelsat signatories/investors in proportion to their percentage share holding in Intelsat. Subsequently, another one million NSS ordinary shares were distributed, out of which VSNL received 43,000 shares. A 10 :1 stock split was announced before consummation of a public offering by NSS in October 2000. Thus, VSNL's total holding in NSS as of March 31, 2001 stands at 3,442,150 ordinary shares out of a total of 130,570,241 shares issued and outstanding. This is a percentage holding of 2.6% post-IPO.

RISK AND CONCERNS

Like any company, VSNL is exposed to certain risks and concerns arising from various factors in the course of its business:

Government Control and Regulation

The government of India owns approximately 52.97% of VSNL's outstanding shares. Consequently, the government, acting through the Department of Telecommunications (DoT), controls VSNL.

As in the case of other public sector companies, VSNL is subject to regulation and supervision by the government. Most of VSNL's services including our basic international telephony services are operated under a license from the DoT that has been extended until March 31, 2004.

VSNL has received a written communication from the Ministry of Communications stating that the government has decided to terminate VSNL's

monopoly on international long distance services on March 31, 2002 rather than on March 31, 2004 as our license provides. The government proposes to compensate VSNL for this early termination with a package, discussed in the director's report.

All calls carried by VSNL either originate or terminate on the domestic telephone network. VSNL neither controls any of these networks, nor the rates charged to end users of such services.

The TRAI has the authority to set the tariffs charged by telecommunications service providers in India including VSNL. Therefore, in these areas VSNL is not free to base its product pricing. VSNL's revenue sharing with BSNL is governed by an agreement effective up to March 31, 2002. Any revision of the current revenue sharing arrangement could have a material effect on VSNL's operations and financial condition.

Increased Competition

Future regulatory changes could expose us to increased competition. The New Telecom Policy 1999 came into effect on April 1, 1999. It sets forth a new policy framework for telecommunications regulations in India. One of its stated goals is to foster greater competition in the telecommunications industry. It addresses a broad range of matters, including cellular mobile services, fixed line service, domestic long distance, global mobile personal communications, the DoT restructuring, spectrum management, the role of the TRAI and Internet telephony. Regulatory changes could follow from its recommendations. While ISPs are currently prohibited from providing Internet telephony, this prohibition may be removed soon, especially since ISPs have recently been allowed to purchase capacity on long distance cable networks.

Economic Conditions

The general slowdown in regional economies and in India has resulted in slower growth in the volume of traffic handled by VSNL. Sustained or deepening global economic downturns, especially in Asia and India could have a material adverse effect on the company's short-term business and prospects.

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

Your company has a developed internal control system. Your company has also implemented the SAP system for accounting. The financial powers of the chairman & managing director and sub-ordinate officers are clearly defined in the delegation of powers. Technical and financial operations are controlled by state of the art technology. The accounts of the company are subjected to audit by statutory auditors in addition to supplementary audit by C&AG.

On behalf of the Board of Directors

S. K. Gupta
Chairman and Managing Director

Dated: 18th August 2001

Registered Office
Videsh Sanchar Bhavan
Mahatma Gandhi Road
Mumbai - 400 001.

Five Years at a Glance

DESCRIPTION	1996-97	1997-98	1998-99	1999-2000	**2000-01**	% change over previous year
1 International Telecommunications Traffic						
1.1 Telephone Paid Minutes (million)	1384.9	1684.51	1935.01	2245.83	**2688.47**	19.71
1.2 Telex paid minutes (million)	17.35	14.02	11.06	9.89	**9.02**	(8.80)
1.3 Telegraph words (million)	18.95	16.32	14.63	8.75	**6.96**	(20.46)
1.4 Television Traffic (in minutes)	143050	185930	92530	135500	**185725**	37.07
1.5 Bureaufax (pages)	55700	48250	40000	22000	**9000**	(59.09)
1.6 Data transmission (GPSS)						
Minutes (in 000)	7982	8920	7929	7116	**7029**	(1.22)
Segments (million)	521	613	469	267	**194**	(27.34)
1.7 Inmarsat Traffic						
Telephone (,000 mts)	3307	2660	1961	1953	**3286**	68.25
Telex (,000 mts)	878	807	272	97	**30.6**	(68.45)
1.8 Internet Access Customers	28,042	90,042	213045	366432	**630970**	72.19
2 Growth of International Circuits						
2.1 Telephone Circuits	14184	15431	17922	19722	**20495**	3.92
2.2 Telex Circuits	1081	1012	787	682	**658**	(3.52)
2.3 Telegraph Circuits	35	35	34	25	**24**	(4.00)
2.4 Satellite Circuits	9220	9266	10609	11409	**10776**	(5.55)
2.5 Cable Circuits	4964	6165	7313	8313	**9719**	16.91
2.6 Leased Telegraph Circuits	87	68	48	38	**23**	(39.47)
2.7 Leased Voice/Data Circuits (including IBS circuits)	44	35	25	23	**15**	(34.78)
2.8 Leased High Speed Data Circuits (64 kbps equivalent)	520	878	1073	1630	**4898**	200.49
2.9 Internet Leased Circuits	81	217	390	659	**1064**	61.46
3 International Automatic Services						
3.1 ISD Telephone Service to countries	236	236	236	237	**237**	0.00
3.2 IXSD Telex Service to countries	238	237	237	237	**237**	0.00
3.3 Bureaufax Service to countries	32	32	32	32	**27**	(15.63)

Financial Ratios

DESCRIPTION	1996-97	1997-98	1998-99	1999-2000	**2000-01**
Profitability Ratios (Percentage)					
Operating Profit Margin (OPM)	18.49	18.34	26.20	27.58	**28.55**
Gross Profit Margin	17.21	23.23	28.51	28.16	**32.46**
Cash Profit Margin	10.72	16.07	19.58	20.01	**23.85**
Net Profit Margin	9.55	15.04	18.46	11.62	**22.33**
Overheads/Total Income	1.65	2.91	1.73	2.13	**3.38**
Return on Average Capital Employed	24.93	29.42	31.82	16.00	**29.14**
Pre Interest profits as % of ACE	43.89	45.44	49.12	38.78	**42.36**
Return on Net Worth	23.50	27.04	27.60	14.49	**27.87**
Total Expenditure/Total Income	84.36	78.26	73.32	72.47	**67.70**
Business Characteristics					
Debt Equity Ratio	0.08	0.04	0.0005	0.0007	**NIL**
Tax Rate	37.98	30.17	29.99	32.82	**31.94**
Revenue to Capital Ratio	1.64	1.48	1.32	1.17	**1.21**
Income/Debtors Ratio	3.45	3.83	3.57	2.84	**4.40**
Income/Avg Assets Ratios	4.61	4.67	4.36	3.57	**3.22**
Net Working Capital as part of TCE %	64	66	68	68	**65**
Current Ratio	1.90	2.07	2.10	2.12	**2.17**
Quick Ratio	1.90	2.07	2.10	2.12	**2.17**
Cash and Equivalents/Total Assets Ratio	45.21	57.97	45.20	45.45	**73.46**
Depreciation/Gross Block %	4.67	4.30	4.52	4.09	**4.37**
Growth (% Over Preceding Years)					
Growth in Turnover	16.16	21.81	11.49	0.76	**9.23**
Growth in Forex Earnings (Gross)	17.61	18.39	17.78	1.68	**1.04**
Growth in PBDIT (excl. other income)	13.92	41.81	43.68	4.30	**8.06**
Growth in PAT (before ICO W/o)	23.24	91.78	36.89	2.12	**112.31**
Growth in PAT (after ICO W/o)	–	–	–	(36.58)	111.70
Growth in Cash Profit	21	84	36	3	**31**
Per Share Data					
Earnings (Rs.)	54.76	101.88	139.47	88.45	**#62.42**
Dividend %	35	40	80	80	**#500**
Book Value (Rs.)	323.1	440.03	570.58	649.92	**#231.18**
P/E (as of Year End)	18.17	8.25	5.02	21.34	**4.68**

#During the year, the Company issued Bonus Shares in the ratio of 2:1. Without bonus issue these values would be three times the value depicted above.

Corporate Governance

Corporate Governance Philosophy And Practice

VSNL's philosophy on the code of Corporate Governance has always been to ensure that adequate control systems are devised, implemented and are in place to enable optimum returns to the stakeholders. As a premium public sector company, your company has always held itself to high standards of accountability, auditing, disclosure and reporting. As VSNL adds new private and international shareholders, these standards continue to define your company's corporate governance philosophy of transparency and accountability, built on strong systems and procedures. To this end, your company is also installing new state of the art systems including an integrated financial accounting and budgeting systems and has increased the number and quality of its financial and accounting personnel. VSNL has implemented the financial information and controlling modules of the Enterprise Resource Planning system SAP(R/3), which allow flexible compiling and reporting.

VSNL's operations and accounts are audited at four levels: an internal audit; a statutory audit by Indian accounting firms under Indian accounting requirements; a government audit by the Comptroller and Auditor General of India; and an audit by international accounting firms under the US GAAP. A chief vigilance officer deputed from the Government of India (GoI), with a rank equivalent to the additional secretary, GoI, oversees the company's policies and procedures on ethical and responsible corporate behaviour. Your company communicates regularly with its shareholders through bulletins, presentations and meetings with analysts and investors. The Securities and Exchange Board of India (SEBI) had introduced a corporate governance code to be implemented by March 31, 2001. Your company had already voluntarily complied with most of its requirements, two years earlier than required.

Board Of Directors

The members of the board of directors of VSNL are identified by the government. At present the VSNL board consists of three full-time functional directors (including the chairman & managing director), four non-official directors and two nominee directors of the government. The following directors have served on VSNL's board during the year:

Name of Director	Designation	From	To
Mr. S. K. Gupta	Chairman & Managing Director	07.09.99	In office
Mr. Rajneesh Gupta	Director (Network)	23.11.98	In office
Mr. R.S.P Sinha	Director (Finance)	14.01.99	In office
Mr. Subodh Bhargava	Director	15.12.98	In office
Mr. Ashok Wadhwa	Director	15.12.98	In office
Mr. N.R. Narayana Murthy	Director	15.12.98	In office
Mr. Hari Prabhakar Wagle	Director	15.12.98	In office
Ms. Sadhana Dikshit	Director	22.01.2001	In office
Mr. P.V. Vaidyanathan	Director	27.08.2001	In office
Mr. Vinoo Goyal	Director (Development)	09.12.98	22.04.2001
Mr. Amitabh Kumar	Director (Operations)	04.09.95	03.06.2001
Ms. S.A. Tirmizi	Director	22.09.95	22.01.2001
Mr. B. R. Khurana	Director	23.07.97	22.01.2001
Mr. C.V. Rajan	Director	22.01.2001	06-08-2001

Two directors - Mr. C.V. Rajan, then advisor (technology), DoT and Ms. Sadhana Dikshit, DDG (LF), DoT - were appointed with effect from January 22, 2001. They replaced Mr. B.R. Khurana and Ms. S.A. Tirmizi deemed to be government directors. Mr. C.V. Rajan resigned from the board with effect from 6 August 2001 subsequent to a letter received from DOT changing nomination of Mr. Rajan to Mr. PV Vaidyanathan, advisor (technology) who has been appointed as director in casual vacancy as per the provisions of Companies Act, 1956. There had been four whole time directors on the Board in addition to CMD. Mr. Vinoo Goyal resigned from the post of director (development) with effect from April 22, 2001 and Mr. Amitabh Kumar's term as director (operations) expired on June 3, 2001. Consequently, Mr. Hardev Singh, chief general manager (marketing) has been asked to look after the responsibilities of director (development); and Mr. K.P. Tiwari, chief general manager (internet) has been asked to look after part responsibilities of the director (operations).

Meetings Of Board And AGM

In the last financial year 10 meetings of the Board of Directors and one Annual General Meeting (AGM) were held by the Company. The attendance of each director in the Board Meetings in the last financial year was as given in table below.

Name of Director	Meetings held during the tenure of the Directors	Meetings attended	Attendance at the last AGM (26 September 2000)
Mr. S. K. Gupta	10	10	Present
Mr. Rajneesh Gupta	10	10	Present
Mr. R.S.P Sinha	10	10	Present
Mr. Subodh Bhargava	10	10	Present
Mr. Ashok Wadhwa	10	6	Present
Mr. N.R. Narayana Murthy	10	1	Absent
Mr. Hari Prabhakar Wagle	10	10	Present
Ms. Sadhana Dikshit	3	2	[1]
Mr. P.V. Vaidyanathan	-	-	[2]
Mr. Vinoo Goyal[3]	10	8	Present
Mr. Amitabh Kumar[4]	10	9	Present
Ms. S.A. Tirmizi[5]	7	5	Absent
Mr. B. R. Khurana[5]	7	6	Present
Mr. C.V. Rajan[6]	3	3	[1]

1 Appointed effective from 22 January 2001.
2 Appointed effective from 27 August 2001.
3 Since resigned with effect from 22 April 2001
4 Term expired with effect from 3 June 2001.
5 Resigned with effect from 22 January 2001
6 Resigned with effect from 6 August 2001.

Notes : (a) None of the directors is related to any other director.

(b) None of the directors has any business relationship with the company.

(c) None of the directors received any loans and advances from the company during the year.

Audit Committee

The audit committee of the board was first constituted on December 15, 1998. It was subsequently reconstituted on April 29, 2000 to comply with the requirements of clause 49 of the listing agreement and has been reconstituted on July 10, 2001 so as to be in compliance of newly inserted Section 292A of the Companies Act, 1956.

The committee now has four members including one whole time director and three non-official, part-time directors. The committee is chaired by non-official director Mr. Ashok Wadhwa, a renowned financial and accounting consultant with Mr. Subodh Bhargava and Mr H.P. Wagle non-official directors and Mr. S.K. Gupta, CMD, as members and Mr. Satish Ranade, Company Secretary as the Secretary of the committee. The committee met thrice during the financial year. Its broad scope is as follows:

i) To oversee the company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.

ii) To recommend the appointment and removal of external auditors, fix audit fees and approve payment for any other services, as applicable.

iii) To review the annual financial statements with management before they are submitted to the board, focusing primarily on:

• changes in accounting policies and practices

• major accounting entries based on exercise of judgement by management

• qualifications in the draft audit report

• significant adjustments arising out of audit

• the going concern assumption

• compliance with stock exchange and legal requirements concerning financial statements

• any related party transactions, that is, company transactions of a material nature with promoters or the management, their subsidiaries or relatives, that may have a potential conflict with the interests of the company.

iv) To review external and internal auditors and the adequacy of internal control systems with the management.

v) To review the adequacy of the internal audit function, including the structure of the internal audit department, staffing, reporting structure coverage and the frequency of internal audits.

vi) To discuss any significant findings with the internal auditors and follow these up.

vii) To review and report to the board on the findings of any internal investigations by the internal auditors concerning suspected frauds or irregularities or a failure of internal control systems.

viii) To discuss the nature and scope of the audit with external auditors before the audit commences, and to have post-audit discussions to ascertain any areas of concern.

ix) To review the company's financial and risk management policies.

x) To look into the reasons for any substantial defaults in payments to depositors, debenture holders, shareholders (in case of non-payment of declared dividends) and creditors.

Executive Committee Of Directors

An Executive Committee of Directors (ECD) was constituted by the board with effect from March 10, 2000 as follows:

a) The ECD comprises of the chairman and managing director (in the chair), the whole-time directors as members, and the company secretary as convenor. Other senior officers Mr. Hardev Singh and Mr. K. P. Tiwari, who currently hold some responsibilities of the director (development) and director (operations) also attend these meetings, as do other invitees. ECD held nine meetings during the year under review.

b) The ECD considers routine items which otherwise would be placed before the board and some approval items which do not fall in the category of policy, planning and performance reporting. The ECD also considers and decides matters that may be delegated by the board from time to time. The ECD presently does not have any financial powers.

Management Committee

VSNL's management committee is presided over by the company's chairman and managing director and consists of whole-time directors, senior officers of the company, branch and region heads, and the company secretary. The committee aims to smoothen day-to day management decision-making. It discusses inter-departmental concerns and issues.

Investor Grievance Committee

Following a decision of the board at its meeting held on April 29, 2000, an investor grievance committee was constituted under the chairmanship of Mr. Ashok Wadhwa. The committee looks into redressing shareholder and investor complaints like transfer of shares, non-receipt of balance sheet or non-receipt of declared dividends. There has been no serious complaints received from SEBI or BSE or any other stock exchange, and there are no complaints outstanding which were received during the year under review.

Topical Sub-committees Of The Board

The board constitutes need-based sub-committees to make decisions on topical issues on its behalf. These have included sub-committees on share transfer, domestic disinvestment, American Depository Receipt (ADRs), marketing, core business, carrier relations, tariffs and so on.

Disclosure Regarding Directorship

None of the Directors holds Directorship in more than 10 listed companies. None of the Directors holds membership of more than 10 Committees of Boards nor is any Director a Chairman of more than 5 Committees of Boards.

Remuneration Of Directors

VSNL being a Government company under S. 619 of the Companies Act, 1956, the directors are appointed by the Government of India and the remuneration of directors is also decided by Government of India.

Bio Data Of Directors Proposed For Reappointment At The AGM

Mr. R.S.P. Sinha

Mr. R.S.P. Sinha, is a B.Sc. in Electrical Engineering. He also holds degrees in Business Management, Banking and Law and is a member of the Institute of Cost & Work Accounts (ICWA). Born on September 21, 1951, Mr. Sinha worked as DGM (Finance) at Tehri Hydro Development Corporation (1990-94). He also headed the transmission wing of the company at Meerut, before moving to New Delhi as Head, Corporate Finance. He then took over as the Director Finance at Hindustan Organic Chemicals Limited, Rasayani (1994-1999). Mr. Sinha took over as Director (Finance), VSNL on January 14, 1999.

Mr. Ashok Wadhwa

Mr. Ashok Wadhwa is an expert on establishing a business presence for transnationals in India. Born on 18 July, 1960, a law graduate of Bombay University, a chartered accountant, and a qualified company secretary, Mr. Wadhwa is the Managing Partner of Ratan S. Mama & Co., and Managing Director of Ambit Corporate Finance Pte. Ltd Until July 1997, he was the managing partner of Arthur Andersen, Mumbai and had been with the company since 1983, when he was conscripted as Arthur Andersen's first professional employee. Mr. Wadhwa is a member of the taxation committees of both the Associated Chambers of Commerce and Industry and the Bombay Chamber of Commerce. A member of the executive committee of the Bombay Management Association, Mr. Wadhwa is also a member of the executive committee, Western Region of the European Economic Community. Mr. Wadhwa was appointed on the Board of VSNL on 15 December, 1998.

Mr. H. P. Wagle

A Bachelor of Engineering and Telecommunications, University of Poona, Mr. Hari Prabhakar Wagle is also Fellow, IETE, India. Born on September 26, 1935, Mr. Wagle first taught Radio Engineering at the College of Engineering, Poona. He joined P&T in May 1958. Between 1960-70, he was Scientific & Technical Officer/Assistant Director, Telecom Research Centre (Radio Engineering/ Microwave Group), New Delhi. Since then Mr. Wagle has held several key posts: from Director (Microwave Projects), Director (Inspections), DGM (Network Management), DDG (Long Distance Maintenance), Telecom. He has also been CGM at Gujarat Telecommunication, Ahmedabad and

Director on Board MS/GCEL, Baroda. Mr. Wagle has also been Member Services, Telecom Commission, New Delhi, and Director General, Telecommunication. He was Chairman, Telecom Commission and Secretary, Department of Telecommunications, Government of India before superannuation. Mr. Wagle was appointed on the Board of VSNL on 15 December, 1998.

Disclosures

There were no significant related-party transactions of the company with its promoters, directors or management, their subsidiaries or relatives. No non-compliance notice has been issued and no penalties or strictures have been imposed on the company by SEBI, a stock exchange or any statutory authority on any matter related to capital markets during the last three years.

Means Of Communication

Quarterly results are published in leading newspapers and are also hosted on VSNL's website: www.vsnl.com. The Company's press releases, details of significant developments and investor updates are also made available on the website. The company generally holds a press conference/investors' meet after half yearly results are taken on record by the Board relating to 30th September and 31st March every year.

General Body Meetings

The location and time of the last three general body meetings are as follows:

Meeting Date	Location, Description and Type of Resolutions	Voting
2 May 2001 EGM	Requisitioned extraordinary general meeting was held on May 2, 2001 at 10:00 hrs at Sasmira, Sasmira Marg, Worli, Mumbai – 400 025. There was only one ordinary resolution.	Resolution was put to vote by show of hands and carried with majority.
26 September 2000 14th AGM	Annual general meeting was held at 11:00 hrs at Birla Matushri Sabhagar, New Marine Lines, Mumbai – 400020. There were 8 resolutions (7 ordinary and 1 special).	All the resolutions were put to vote by show of hands. 7 of the resolutions were carried unanimously and one was passed by requisite majority.
30 September 1999 13th AGM	Annual General Meeting was held at 10:00 hrs at Indian Merchants' Chamber, Indian Merchant Chamber Marg, Mumbai – 400 020. There were 12 resolutions (11 ordinary and 1 special).	All the resolutions were put to vote by show of hands and were carried unanimously.
21 September 1998 12th AGM	Annual General Meeting was held at 11:00 hours in the conference room of Videsh Sanchar Bhavan, M.G. Road, Mumbai - 400 001. There were 4 resolutions (3 ordinary and 1 special).	All the resolutions were put to vote by show of hands and were carried unanimously.

Shareholder Information

Book Closure Dates For The Purpose Of Dividend

Register of Members and Share Transfer Books of VSNL will remain closed from Sunday, the 16th September, 2001 till Sunday the 30th September, 2001, both days inclusive, to determine the entitlement of shareholders to receive dividend for the year ended 31st March, 2001.

Date And Venue Of The AGM

The Fifteenth Annual General Meeting will be held on Thursday, 27 September 2001 at 11:00 Hrs at Birla Matushri Sabhagar, New Marine Lines, Mumbai – 400 020.

Dividend Payment

Dividend on Equity Shares as recommended by the Directors for the year ended 31st March, 2001, when declared at the meeting, will be paid:

(i) to those members whose names appear on the Register of Members of the Company, after giving effect to all valid share transfers in physical form lodged with M/s.Sharepro Services, R&T Agent of the Company on or before Saturday, the 15th September, 2001.

(ii) in respect of shares held in electronic form, to those "deemed members" whose names appear in the statements of beneficial ownership furnished by National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) as at the end of business on Saturday, the 15th September, 2001.

Direct Deposit Of Dividend (Electronic Clearing Service)

In respect of shares held in electronic form, the dividend will be payable on the basis of beneficial ownership as per details furnished by NSDL and CDSL for this purpose. The company is considering payment of dividend, in respect of shares held in electronic form, through E.C.S/ D.D.S on the basis of particulars received from NSDL/CDSL. Members holding shares in electronic form are therefore required to update their bank details including 9 digit MICR number appearing on the cheque pertaining to the respective bank account with their concerned Depository Participants (DP) to facilitate distribution of dividend. Members who wish to receive dividend in an Account other than the one specified while opening the Depository Account may notify their DPs about any change in Bank Account Details. Members are requested to furnish complete details of their bank accounts including MICR codes of their Banks to their DPs.

In respect of shares held in physical form, members desirous of receiving dividend by direct electronic deposit to their Bank accounts may authorize the Company with their ECS mandate. For details, kindly write to the R&T Agents M/s Sharepro Services.

Bank Details

In order to provide protection against fraudulent encashment of dividend warrants, Members are requested to provide, if not provided earlier, their Bank Account numbers, Bank Account type, names and addresses of bank branches, quoting Folio numbers, to the R&T agents M/s Sharepro Services (in case of physical shareholding) to enable them to incorporate the same on the dividend warrants. In case of demat holding the bank account details need by intimated to the respective depository participant of the shareholder.

Financial Calendar

Fiscal year ending : 31st March 2001
Annual General Meeting : 27th September, 2001

Key Financial Reporting Dates For Financial Year 2001-02

Ist quarter ending 30-6-01 : On 27th July 2001
2nd quarter ending 30-9-01:By 31st October 2001
3rd quarter ending 31-12-01: By 31st January 2002
4th quarter ending 31-3-02 :By 30th April 2002

Listing On Stock Exchanges In India And Listing Fees

The Company's shares are listed on the Stock Exchanges at Mumbai, Kolkata, Chennai, Delhi and National Stock Exchange (NSE) in India. Annual listing fees as due to each of the above Stock Exchanges for 2000-2001 and 2001-2002 have been paid.

Listing On Stock Exchange Outside India

The Company has listed its scrip on New York Stock Exchange (NYSE) by converting its GDRs into ADRs. The trading on NYSE had commenced from August 15th 2000. The GDRs which were listed on London Stock Exchange, have been voluntarily delisted effective December 2000 subsequent to full conversion of GDRs into ADRs.

Depositary Bank For ADR Holders

The Bank of New York, 101, Barclays Street, 22nd Floor West, New York, NY 10286, Telephone: +1 (212) 815 8128, Facsimile: +1 (212) 571 3050
Local Address : The Bank of New York, Express Towers, 12th Floor, Nariman Point, Mumbai 400 021, Tel.: (022) 202 4941/43, Facsimile: (022) 204 4942.

Custodian For The Depositary In India

ICICI Limited, Custodial Services, ICICI Towers, Bandra Kurla Complex, Bandra (East), Mumbai 400 051, Telephone: 91-22-653 8211, Facsimile: 91-22-653 1164/65.

Reuters Code

VSNL.BO (BSE) VSNL.NS (NSE) VSNLq.L (LSE)
BSE Code : 500483 NYSE Code : VSL
NSDL/CDSL ISIN NO. 151A01013
ADR CUSIP NO.92659G600
ADR ISIN NO.US92659G6008

Share Transfer System

Share transfers in physical form can be lodged with M/s. Sharepro Services, the R & T agents of VSNL. The transfers are normally processed within 15 days from the date of receipt if the documents are complete in all respects. A Committee of Share Transfers is empowered to approve transfers.

Stock Market Data Relating To Shares Listed In India

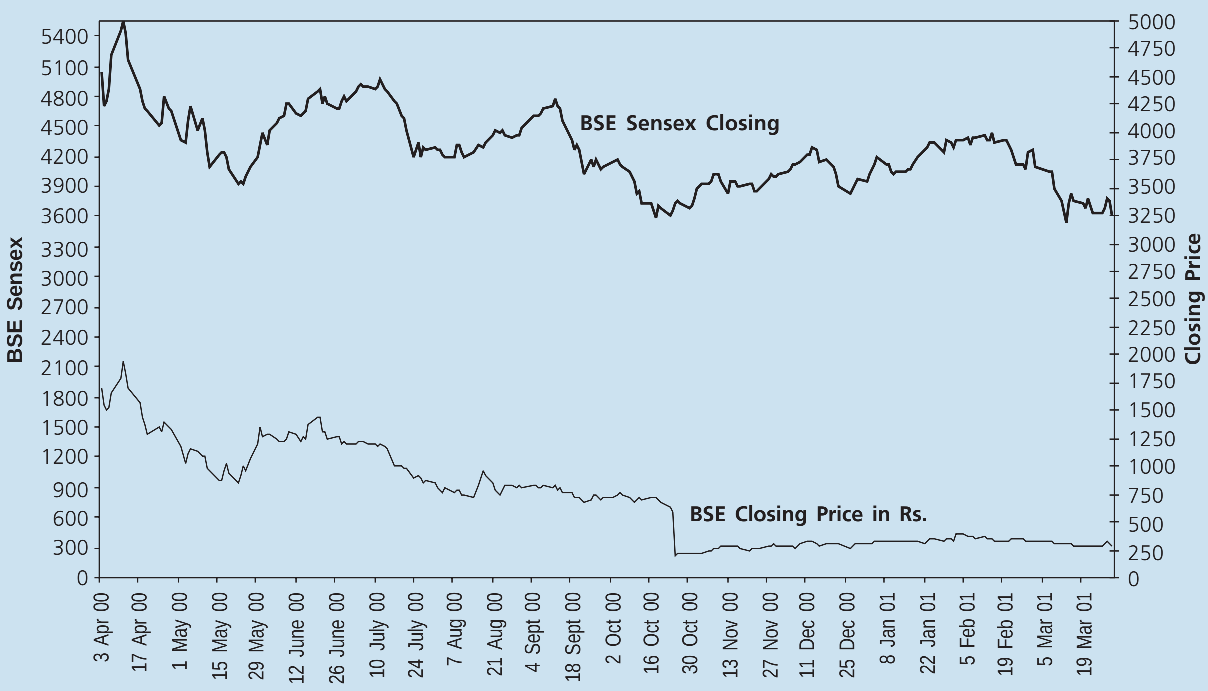
Monthly high and low quotations and volume of shares traded at BSE & NSE for 2000-01 are :

	BSE Share Price (Closing)			NSE Share Price (Closing)		
Date	**High**	**Low**	**Volume**	**High**	**Low**	**Volume**
Apr-00	1,936.50	1,281.50	238493	1914.85	1291.20	351785
May-00	1,345.00	859.95	476848	1346.80	858.40	694075
Jun-00	1,446.45	1,196.85	540440	1447.40	1197.20	976590
Jul-00	1,199.35	841.55	426597	1230.00	848.65	655024
Aug-00	964.20	719.90	1696723	957.70	714.40	2483519
Sep-00	829.00	675.40	759223	826.25	676.35	1097851
Oct-00	757.45	201.45	696510	761.35	598.85	1089111
Nov-00	299.35	209.10	2010549	297.05	209.45	3993424
Dec-00	338.40	260.40	3711412	337.25	261.05	7409462
Jan-01	354.15	298.25	6462059	354.55	297.90	10621684
Feb-01	399.40	319.70	14920239	399.15	317.25	22404511
Mar-01	336.55	285.55	8694344	334.65	286.40	14221279
Total			40633437			65998315

Percentage of volume traded on BSE & NSE to shares available in Indian market 211.12%**

** Out of the total 285 million outstanding shares, the number of shares available in Indian markets have been considered to be 50508483 only which has been arrived at after deducting 150961440 shares held by Government of India, 83133086 shares issued as underlying shares for ADRs and 396991 shares held as non-tradable shares till 12 May 2002 by employees.

Performance Of VSNL Share Price On BSE In Comparison To BSE Sensex



Categories of Shareholders as of 31 March

Category	Number of Shareholders		Voting Strength		Number of Shares held	
	2001	2000	**2001**	2000	**2001**	2000
Central Government including nominees of President of India	**3**	9	**52.97**	52.97	**150961440**	50320480
Indian public financial institutes & mutual funds	**64**	42	**6.78**	6.55	**19319800**	6215824
Indian nationalised banks	**13**	14	**0.08**	0.35	**235711**	332783
Foreign Financial institutions	**137**	98	**7.82**	8.05	**22296097**	7649392
Foreign companies (shares held by Bank of New York as depository for ADRs)	**1**	1	**29.22**	30.35	**83268219**	28834783
Non resident individuals	**202**	87	**0.02**	0.01	**46763**	6549
Other Indian bodies corporates	**1548**	410	**0.68**	0.20	**1923801**	191930
Others (including 3,96,991 shares held by employees as locked–in shares)	**66303**	48399	**1.96**	1.39	**5591768**	1322202
In transit demat shares			**0.47**	0.13	**1356401**	126057
TOTAL	**68271**	49000	**100**	100	**285000000**	95000000

Share Capital History

Details of share capital history since incorporation is as below:-

Dates	**Particulars of Issue**	**Number of Shares**	**Total Number of Shares**	**Nominal Value of Shares (Rs.)**
19.3.86	Allotted as Purchase consideration for assets & liabilities of OCS.	126	126	126,000
1.4.86	Allotted as Purchase consideration for assets & liabilities of OCS.	+599,874	600,000	600,000,000
March'91	Shares of Rs.1000/- each subdivided into shares of Rs.10/- each.	NIL	60,000,000	600,000,000
06.02.92	Bonus of 1:3 issued to Government of India.	+20,000,000	80,000,000	800,000,000
Jan-Feb-92	12 million shares disinvested in favour of Indian Financial Institutions by GOI @ Rs.123/- per share.	NIL	80,000,000	800,000,000
1994-95	2,382,529 Shares transferred to disinvested parties as bonus shares.	NIL	80,000,000	800,000,000
27.03.97	VSNL raised its share capital by way of GDR Issue, and also GOI Divested in GDR markets @ US$13.93 per GDR equivalent to Rs.1000 per share.	+12,165,000	92,165,000	921,650,000
04.04.97	VSNL raised its capital by way of GDR Issue Green Shoe option @ US$13.93 per GDR equivalent Rs.1000 per share.	+2,835,000	95,000,000	950,000,000
Feb. 1999	10,000,000 shares divested by GOI in GDR markets @ US$9.25 per GDR equivalent to Rs.786.25 per share.	NIL	95,000,000	950,000,000
May 1999	396,991 shares divested by GOI by way of offer of shares to employees of VSNL @ Rs.294 per share locked in for a period of 3 years.	NIL	95,000,000	950,000,000
Sept'99	1,000,000 shares divested by GOI in domestic markets @ Rs.750 per share.	NIL	95,000,000	950,000,000
15.08.2000	Listing of ADR's on New york Stock Exchange (NYSE)	NIL	95,000,000	950,000,000
24.11.2000	Bonus shares in the ratio of 2:1.	+190,000,000	285,000,000	2,850,000,000

Distribution of Shareholding

	Number of shareholders	
Number of ordinary shares held	**31.03.2001**	31.03.2000
1 to 100	**56997**	46372
101 to 500	**9403**	2228
501 to 1000	**1195**	115
1001 to 10000	**480**	70
Over 10000	**196**	215
Total	**68271**	49000

Dematerialisation of shares and liquidity : Approx 99% of the company's share capital available in market is dematerialised as on 31.03.2001. The company's shares are regularly traded on the Stock Exchange Mumbai and the National Stock Exchange, as is seen from the Table containing stock market data.

Outstanding ADRs : 41566543 ADRs (each representing two ordinary shares of the company) as on 31 March 2001. In respect of these ADRs the option to convert into shares is alive.

Address of Registered Office :

Videsh Sanchar Nigam Limited
Videsh Sanchar Bhawan (VSB)
Mahatma Gandhi Road,
Mumbai - 400 001.
Tel : +91 22 262 4020/261 9632
Fax : +91 22 262 4027

Adress of Corporate Office :

Lokmanya Videsh Sanchar Bhawan (LVSB)
Kashinath Dhuru Marg,
Prabhadevi
Mumbai – 400 028
Tel. : +91 (22) 431 2700
Fax : +91 (22) 432 2678
Email : help@vsnl.com
Website : www.vsnl.com

Registrar And Transfer Agents

Head Office :-
M/s. Sharepro Services
Unit : Videsh Sanchar Nigam Limited
Satam Estate, 3rd Floor,
Above Bank of Baroda,
Chakala, Andheri (East),
Mumbai - 400 099.
Tel : (022) 8215168, 8202108, 8202114.
Fax : (022) 8375646
E-mail : sharepro@vsnl.com

Investor Relation Centre:-
M/s. Sharepro Services
Unit : Videsh Sanchar Nigam Limited
912, Raheja Centre,
Free Press Journal Road,
Nariman Point, Mumbai - 400 021.
Tel : (022) 2881568/1569, 2825163/4527
Fax : (022) 2825484
E-mail :sharser@vsnl.com

Compliance Officer
Mr R. N Aditya
Assistant Company Secretary
Videsh Sanchar Nigam Limited
Videsh Sanchar Bhawan
M. G. Road, Mumbai - 400 001.
Tel : +91 22 262 4020/261 9632
Fax : +91 22 266 7954
Email : rnaditya@vsnl.com

Any queries relating to financial statements of the Company may be addressed to :

Investor Relations Cell
Videsh Sanchar Nigam Limited
Lokmanya Videsh Sanchar Bhawan
Kashinath Dhuru Marg
Opposite Kirti College
Prabhadevi, Mumbai - 400 028.
Tel : +91 (22) 432 0621
Fax: +91 (22) 432 0283
Email: invrelhq@vsnl.com

Secretary Responsibility Statement

The Company Secretary confirms that the Company has :

(i) maintained all the books of account and statutory registers required under the Companies Act,1956 ("the Act") and the Rules made thereunder.

(ii) filed all the forms and returns and furnished all the necessary particulars to the Registrar of Companies and/or Authorities as required by the Act.

(iii) issued all notices required to be given for convening of Board Meetings and General Meeting, within the time limit prescribed by law.

(iv) conducted the Board Meetings and Annual General Meeting as per the Act.

(v) complied with all the requirements relating to the minutes of the proceedings of the meetings of the Directors and the Shareholders.

(vi) made due disclosure required under the Act including those required in pursuance of the disclosures made by the Directors.

(vii) obtained all necessary approvals of Directors, Shareholders, Central Government and other Authorities as per the requirements.

(viii) effected share transfers and despatched the certificates within the statutory time limit.

(ix) paid dividend amounts to the Shareholders and unpaid dividend amounts, if applicable, have been transferred to the General Revenue Account of the Central Government within the time limit prescribed.

(x) complied with the requirements of the Listing Agreement entered into with the Stock Exchanges in India and requirements of New York Stock Exchange.

The Company has also complied with other statutory requirements under the Companies Act, 1956 and other related statutes in force.

Satish Ranade
Company Secretary

Confidential

क्रमांक .... No. RR Coml./VSNL A/CS/2000-2001/302
No.

कार्यालय

महानिदेशक लेखापरीक्षा, डाक व दूरसंचार

शाम नाथ मार्ग (समीप पुराना सचिवालय) दिल्ली–110 054

OFFICE OF THE

Director General of Audit, Post and Telecommunications

Sham Nath Marg (Near Old Secretariat), Delhi-110 054

दिनांक ....
Date : 28-8-2001

To

The Chairman and Managing Director,
Videsh Sanchar Nigam Limited
Mumbai

Sub:- Comments of Comptroller and Auditor General of India under Section 619(4) of the Companies Act, 1956 on the accounts of Videsh Sanchar Nigam Limited for the year ended 31st March 2001

Sir,

I am to forward herewith the comments of the Comptroller and Auditor General of India under Section 619(4) of the Companies Act, 1956 on the accounts of Videsh Sanchar Nigam Limited for the year ended 31st March 2001 along with 'Review of Accounts'.

The Comptroller and Audit General of India has decided that 'Review of Accounts' by the Comptroller and Auditor General of India as enclosed may please be published as an annexure to the Director's Report. If this arrangement is not acceptable to the Company, the Review will have to be treated as the Comptroller and Auditor General's comments under Section 619(4) of the Companies Act, 1956 and it will be an addition to the comments sent herewith.

Kindly acknowledge receipt

Yours faithfully,

(Kanwal Nath)
Director General of Audit (P & T)

दूरभाष / Telephone : 3972666, 3914533
टैलेक्स / Telex : 031 - 78071
तार / Telegam : CENOFF, DELHI
फैक्स / Fax : 91-011-3983822

Comments of Comptroller & Auditor General of India

under Section 619 (4) of Companies Act 1956 on the Accounts of Videsh Sanchar Nigam Limited Mumbai for the year ended 31st March 2001.

A. Balance Sheet

1. II . Application of Funds
Current Assets Loans and Advances
a) Gross Block
Plant and Machinery Rs. 2281.48 crore
d) Capital Work in progress
Rs. 242.28 crore

The Company has been valuing the GDR proceeds received through Euro issue of US $ 408.85 million (net) made in 1997 and parked outside India at Rs 35.91/ US$ treating it as a non-monetary item. Even the capital expenditure met out of these proceeds during 1997-2000 was valued at the same rate instead of the prevailing conversion rate on the date of transaction/payment. In the current year, Company has changed the accounting method for valuation of GDR proceeds, treating it as a monetary item and thus has valued the balance proceeds outside India at the closing exchange rate as on 31.03.2001.

Due to non-adoption of the changed method in respect of assets and capital work in progress acquired during the years 1997-98 to 1999-2000, the gross block of fixed assets and capial work in progress were understated by Rs.72 crore and Rs.3.58 crore respectively. This has also resulted in understatement of depreciation by Rs.4.67 crore including Rs.0.87 crore towards prior-years and over statement of profit by Rs.4.67 crore.

2. Plant and Machinery
Rs. 2281.48 crore

This was overstated due to non-adjustment of Rs.4.28 crore reimbursed by Bezeq Israel in February 1996 towards 50 percent cost of 1 x 2 MB capacity circuit between Mumbai and Cyprus commissioned in June 1994.

This has resulted in overstatement of depreciation by Rs.1.55 crore including Rs.1.32 crore for previous years and corresponding understatement of profit by Rs.1.55 crore. This has also resulted in overstatement of net block by Rs.2.73 crore.

3. Current Liabilities (Schedule 11)
Other Liabilities Rs.124.65 crore

The above was overstated by Rs.2.34 crore due to :

(a) Provision for Euro issue expenses of Rs.1.59 crore pertaining to 1994 for which the Management has stated that liabilities have already been discharged.

(b) Non-transfer of very old unclassified amount of Rs.0.75 crore to income.

This has also resulted in understatement of profit and reserve by Rs.2.34 crore.

B. PROFIT AND LOSS ACCOUNT

4. Income
Traffic Revenue (Schedule – 13)
Telephone – Rs.6482.84 crore

The above was overstated by Rs 3.65 crore being excess billing on account of non -consideration of the reduction in total accounting rate from Special Drawing Rights (SDR) from 1.96 per minute to 0.80 per minute with Libya during the year.

This has also resulted in overstatement of sundry debtors by Rs. 3.65 crore and profit by same amount.

The net impact of the above comments on the Company's accounts was the reduction in the profit after tax by Rs.4.43 crore.

(Kanwal Nath)
Director General
of Audit
(Post and Telecommunications)

Review of accounts of Videsh Sanchar Nigam Limited
for the year ended 31st March 2001
by the Comptroller and Auditor General of India

Note: Review of Accounts has been prepared without taking into account comments under section 619 (4) of the Companies Act, 1956 and qualifications contained in the Statutory Auditor's Report.

1. Financial Position

The table below summarises the financial position of the Company under broad headings for the last three years

(Rs. in crore)

Liabilities	1998-99	1999-00	2000-01
a) Paid up capital	95.00	95.00	285.00
i) Government	51.72	50.32	150.96
ii) Others	43.28	44.68	134.04
b) Reserves & Surplus			
i) Free Reserves & Surplus	3874.97	4628.80	4647.28
ii) Share Premium Account	1448.18	1448.18	1448.18
iii) Capital Reserves	2.41	2.24	208.28
c) Borrowings			
i) From Govt. of India	—	—	—
ii) From Financial Institutions	—	—	—
iii) Foreign Currency Loans	—	—	—
iv) Cash Credit	2.55	4.57	—
v) Others	—	—	—
vi) Interest accrued & due	—	—	—
d) i) Current liabilities & Provisions	3404.45	1907.17	3477.36
ii) Provisions for Gratuity	0.88	1.61	3.16
TOTAL	**8828.44**	**8087.57**	**10069.26**
Assets	**1998-99**	**1999-00**	**2000-01**
e) Gross block	1769.78	2282.02	2658.79
f) less : Depreciation	542.00	637.78	742.99
g) Net block	**1227.78**	**1644.25**	**1915.80**
h) Capital works in-progress	317.01	88.75	242.28
i) Investments	805.56	379.95	365.55
j) Current Assets, Loans and Advances	6478.09	5974.62	7545.63
TOTAL	**8828.44**	**8087.57**	**10069.26**
k) Working Capital [j-d(i)-c(vi)]	3073.65	4067.46	4068.27
l) Capital Employed (g+k)	4301.43	5711.71	5984.07
m) Net Worth [a+b(i) +b(ii)]	5418.15	6171.98	6380.46
n) Net Worth per Rupee of paid up capital (in Rs)	57.03	64.97	22.39

(i) There is a steep increase in Capital Reserve due to transfer of Euro Issue Interest Income of Rs. 203.69 crore to this account during the year.
(ii) Decrease in Net-worth per Rupee of paid up capital is due to issue of bonus shares at 2:1. ratio.

2. Working Results

The working results of the Company for the last three years are given below :

	1998-99	1999-00	2000-01
i) Traffic Revenue (Sales)	6756.02	6893.92	7181.52
ii) Less : Excise Duty	—	—	—
iii) Net Sales	6756.02	6893.92	7181.52
iv) Other or Misc. Income	419.55	336.60	668.40
v) Profit/Loss before tax and prior period adjustments	1965.50	1942.72	2469.54
vi) (a) Prior period adjustments [Dr(+) Cr(–)]	(-)51.15	47.84	103.20
(b) Extraordinary item- loss of ICO investment.		(-) 512.76	(-) 5.17
vii) Profit/Loss before tax	1914.35	1477.80	2567.57
viii) Tax provision	589.40	637.53	788.73
ix) Profit after tax	1324.95	840.27	1778.84
x) (a) Proposed Dividend	76.00	76.00	1425.00
(b) Tax on Dividend	8.36	10.45	145.35

3. Ratio Analysis

Some important financial ratios on the financial health and working of the Company at the end of last three years are as under :

	1998-99	1999-00	2000-01
a. **Liquidity Ratio**			
Current Ratio (Current assets to Current Liabilities and Provision and interest accrued & due but excluding provisions for Gratuity) [j/(d)(i)+c(vi)]	1.90	3.13	2.17
b. **Debt Equity Ratio**			
Long Term debt to Equity [c(i) to v but excluding short term loans)/m]	0:1	0:1	NIL
c. Profitability Ratios			
a) Profit before tax to			**(In percentages)**
i) Capital Employed	45.69	34.01	41.27
ii) Net worth	36.28	31.48	38.70
iii) Sales	29.09	28.18	34.39
b) Profit after tax to Equity	1394.68	884.50	1872.46
c) Earnings per share (in Rupees)	139.47	88.45	62.41

Decrease in Earning Per Share is due to issue of bonus shares at 2:1. ratio during the current year under report.

4. Working Capital

The working capital (current assets less current liabilities) increased from Rs.3073.65 crore in 1998-99 and Rs.4067.46 crore in 1999-00 to Rs.4068.27 crore in 2000-01. Traffic revenue, as a percentage to working capital stood at 220 in 1998-99 but fall to 169 in 1999-2000 and 177 in 2000-01.

5. Sources and Utilisation of Funds

Funds amounting to Rs. 2101.82 crore from internal sources were generated and utilised during the year 2000-01 as under:

Sources of Funds			
a)	Funds generated from Operations		
	Profit after Tax	1778.84	
	Depreciation	104.91	
	Others written back	—	
			1883.75
b)	Capital Reserve		203.69
c)	Decrease in Investment		14.38
	Total		**2101.82**
Utilisation of Funds			
a)	Net addition to Fixed Assets and Capital work-in-progress		527.63
b)	Dividend paid		86.45
c)	Increase in working capital		1483.17
d)	Decrease in Bank Loan		4.57
	Total		**2101.82**

6. Sundry Debtors

Sundry debtors vis-a-vis traffic revenue in the last three years are given below :

As on	Sundry debtors (all considered good)	Traffic Revenue	Percentage Sundry Debtors to traffic Revenue.
31-3-1999	2613.66	6756.02	38.69
31-3-2000	2542.63	6893.92	36.88
31-3-2001	1810.93	7181.52	25.22

	1998-99	1999-00	2000-01
Sundry Debtors in terms of month's sales	4.64	4.43	3.03

Due to sustained efforts of VSNL Management the outstanding position of Sundry Debtors decreased substantially during the year under report.

The total Sundry Debtors as on 31st March 2001 were outstanding for the periods indicated below:-

Debts outstanding	Foreign	Domestic	Total
I) up to one year	1479.27	62.31	1541.58
ii) More than one year but less than 2 years	218.24	6.60	224.84
iii) 2 years or more but less than 3 years	38.42	11.21	49.63
iv) For 3 years or more	45.58	50.19	95.77
TOTAL	**1781.51**	**130.31**	**1911.82**

Note : Last year's figures recasted wherever necessary.

(Kanwal Nath)
Director General of Audit (P&T)

Reply to the Comments of Comptroller and Auditor General of India

A. Balance Sheet

ii. Application of funds

1. Fixed Assets.-(Schedule 4)
a) Gross Block
Plant and Machinery Rs. 2281.48 crore
d) Capital Work in progress
Rs. 242.28 crore

The Company has been valuing the GDR proceeds received through Euro issue of US $ 408.85 million (net) made in 1997 and parked outside India at Rs 35.91/US $ treating it as a non-monetary item. Even the capital expenditure met out of these proceeds during 1997-2000 were valued at the same rate instead of the prevailing conversion rate on the date of transaction/ payment. In the current year, Company has changed the accounting method for valuation of GDR proceeds, treating it as a monetary item and thus has valued the balance outside India at the closing exchange rate as on 31.03.2001.

Due to non-adoption of the changed method in respect of assets and capital work in progress acquired during the years 1997-98 to 1999-2000, the gross block of fixed assets and capial work in progress were understated by Rs. 72 crore and Rs. 3.58 crore respectively. This has also resulted in understatement of depreciation by Rs 4.67 crore including Rs 0.87 crore towards prior-years and over statement of profit by Rs. 4.67 crore.

Reply: The Company had issued Global Depository Receipts (GDRs) in March / April 1997 and was allowed by RBI to park these funds abroad. Accordingly, these funds were being treated as not in the nature of monetary items and the cash balances as well as the assets procured were being recorded at the exchange rate of Rs. 35.91 on the transaction date at which GDR funds were realized. This treatment was adopted by the company upto the financial year 1999-2000.

However, during the year RBI directed the Company to repatriate these funds. Accordingly, an amount of US $ 151.36 million was repatriated and converted into Rupees and as a result, foreign exchange gain was crystallized and realized on the repatriated funds. Under the circumstances, the Company had no alternative but to account for the realised gain, which necessitated the change in accounting treatment with regard to foreign exchange gain.

The assets acquired during the years 1997-98 to 1999-2000 were stated as per the accounting treatment adopted and consistently followed during those years. The change in the treatment in the current year was the direct result of the change in the factual scenario which does not warrant the review or reversal of the valid treatment adopted in those years. Hence, the fixed assets acquired in earlier years and accounted by adopting a valid accounting treatment cannot be recast or revalued in the later year by reason of change in accounting treatment necessitated by an event taking place in that year. The change in accounting treatment including the effect thereof on the profit and loss account, reserves, assets, etc. has been elaborately explained in note No. B-4 of Schedule 21.

The Company has been advised by an independent expert that the method of accounting adopted in the current year is in accordance with the accounting standards and accepted accounting principles. Hence, there is no understatement of the fixed assets/ CWIP or depreciation.

2. Plant and Machinery
Rs. 2281.48 crore

This was overstated due to non-adjustment of Rs.4.28 crore reimbursed by Bezeq Israel in February 1996 towards 50 percent cost of 1 x 2 MB capacity circuit between Mumbai and Cyprus commissioned in June 1994.

This has resulted in overstatement of depreciation by Rs.1.55 crore including Rs.1.32 crore for previous years and corresponding understatement of profit by Rs. 1.55 crore. This has also resulted in overstatement of net block by Rs. 2.73 crore.

*Reply**:** Pending the identification of corresponding cost and debits the amount has been credited to party's account. Necessary action will be taken in the current financial year 2001-02.*

3. Current Liabilities (Schedule 11)
Other Liabilities Rs 124.65 crore

The above was overstated by Rs. 2.34 crore due to :

(a) Provision for Euro issue expenses of Rs 1.59 crore pertaining to 1994 for which the Management has stated that liabilities have already been discharged.

(b) Non-transfer of very old unclassified amount of Rs. 0.75 crore to income.

This has also resulted in understatement of profit and reserve by Rs. 2.34 crore.

Reply: Efforts are being made to confirm and classify the amounts appropriately. Necessary action will be taken in the financial year 2001-02.

B. PROFIT AND LOSS ACCOUNT

4. Income
Traffic Revenue (Schedule – 13)
Telephone – Rs.6482.84 crore

The above was overstated by Rs 3.65 crore being excess billing on account of non - consideration of the reduction in total accounting rate from Special Drawing Rights (SDR) from 1.96 per minute to 0.80 per minute with Libya during the year.

This has also resulted in overstatement of sundry debtors by Rs. 3.65 crore and profit by same amount.

The net impact of the above comments on the Company's accounts was the reduction in the profit after tax by Rs. 4.43 crore.

Reply: Libya's acceptance for the reduced accounting rate was received only after the closure of accounts. The company has not accepted the said accounting rate so far, which will be finalised at the ensuing bilateral meeting. This is in accordance with the consistent practice.

Auditor's Report

To the Members of Videsh Sanchar Nigam Limited

We have audited the attached Balance Sheet of VIDESH SANCHAR NIGAM LIMITED as at March 31, 2001 and also the Profit and Loss Account of the company for the year ended on that date, annexed thereto, in which are incorporated the accounts of the branches audited by the Branch Auditors and report that:

1. We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit.

2. In our opinion, proper books of account, as required by law, have been kept by the Company so far as appears from our examination of the books and proper returns adequate for the purposes of our audit have been received from branches not visited by us.

3. The reports of the Branch auditors on the Branches audited by them have been forwarded to us and have been considered by us in preparing this report.

4. The Balance Sheet and Profit and Loss Account dealt with by this report are in agreement with the books of account and returns.

5. In our opinion, the Balance Sheet and Profit and Loss Account comply with the accounting standards referred to in Sub-Section (3C) of Section 211 of the Companies Act, 1956.

6. On the basis of the written representations received from the directors as on March 31, 2001 and taken on record by the Board of Directors, none of the directors are disqualified as on March 31, 2001 from being appointed as a director in terms of Section 274(1)(g) of the Companies Act, 1956.

7. Attention is invited to note no. 4 of Schedule 21 regarding change in method of accounting in respect of assets purchased out of GDR proceeds, translation of unutilised foreign currency out of GDR proceeds at the year end rate and interest earned including gain/loss on exchange fluctuation thereon as explained in the note.

8. Attention is further invited to the following notes in Schedule 21 :

    a) Note No. 2 regarding debit/ credit adjustments in Government of India Current Account being subject to approval and confirmation of the Government.

    b) Note No. 3(a) regarding, inter branch adjustments and investments in communication satellites being subject to reconciliation/adjustments, if any.

    c) Note No. 3(b) regarding balances in respect of sundry debtors and sundry creditors including traffic creditors being subject to confirmations/ adjustments, if any.

SUBJECT TO THE FOREGOING stated in paragraph 8, the consequential cumulative effect of which is not ascertainable at this stage, in our opinion and to the best of our information and according to the explanations given to us, the said accounts read together with other notes of Schedule 21, give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view : -

a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31st March 2001;

and

b) in the case of the Profit and Loss Account, of the profit of the Company for the year ended on that date.

As required by Manufacturing and other Companies (Auditor's Report) Order, 1988 issued by the Central Government in terms of Section 227(4A) of the Companies Act, 1956 and on the basis of such checks of the books and records of the Company as we considered appropriate and as per information and explanations given to us, during the course of audit, we report as under :

1. The Company has generally maintained proper records showing full particulars including quantitative details and situation of fixed assets except that in the case of Head Office and Northern Region, wherein the record of fixed assets are in the form of receipts register, on year to year basis and does not give complete particulars of the assets acquired from time to time, quantitative details thereof on a cumulative basis, accumulated depreciation thereon and the quantities of each class of assets held at any time are not readily ascertainable. Further, in respect of assets taken over from Overseas Communications Service (OCS), the records are in the form of history sheets maintained by the erstwhile department. Physical verification of majority of the assets other than those taken over from OCS was conducted by the management during the year and as explained to us, no material discrepancies were noticed by the management on such verification.

2. None of the fixed assets has been revalued during the year.

3. The management, during the year, has conducted physical verification of stocks of stores and spare parts. In our opinion, the frequency of verification is reasonable.

4. In our opinion, the procedures of physical verification of stock of stores and spare parts followed by the Management are reasonable and adequate, in relation to the size of the Company and the nature of its business.

5. The discrepancies noticed on physical verification of stock of stores and spare parts as compared to the book records were not material.

6. On the basis of our examination of stock records, we are of the opinion that the valuation of stores and spare parts is fair and proper in accordance with the normally accepted accounting principles and is on the same basis except as stated in Note No. 8 of Schedule 21 as in the preceding year.

7. The Company has not taken any Loans from Companies, firms or other parties listed in the Register maintained under Section 301 of the Companies Act, 1956. There are no companies under the same management as this Company within the meaning of Section 370(1-B) of the Companies Act, 1956.

8. The Company has not granted any loans, secured or unsecured to companies, firms or other parties listed in the Register maintained under Section 301 of the Companies Act, 1956. There are no companies under the same management as this Company within the meaning of Section 370(1-B) of the Companies Act, 1956.

9. Loans and Advances in the nature of loans have been given by the Company to its employees and other parties who are generally repaying the principal amounts as stipulated together with interest, wherever applicable.

10. In our opinion and according to the information and explanations given to us and on the basis of selective checks carried out during the course of audit, the internal control procedures for purchase of stores and components, plant and machinery, equipments and other assets and for the sale of services are adequate and commensurate with the size of the Company and nature of its business.

11. There were no transactions of purchase of goods and materials and sale of goods, materials and services aggregating during the year to Rs. 50,000/- or more in respect of each party made in pursuance of contracts or arrangements entered in the register maintained under Section 301 of the Companies Act, 1956.

12. As explained to us, the Company has a regular procedure for determining unserviceable or damaged stores. The loss, if any, arising on the items so determined is accounted for in the year of sale of such stores.

13. The Company has not accepted any deposits from the public.

14. As explained to us, the operations of the Company do not generate any by-product or significant realisable scrap.

15. The internal audit of the Company carried out by firms of Chartered Accountants is commensurate with the size of the Company and nature of its business.

16. The Central Government has not prescribed maintenance of cost records under Section 209(1) (d) of the Companies Act, 1956 for the year.

17. According to the records of the Company, it has generally been regular in depositing provident fund dues with the appropriate authority. The Company has received exemption from the operation of, and as such it is not coverable under, the provisions of Employees' State Insurance Act, 1948.

18. According to the information and explanations given to us, no undisputed amounts payable in respect of Income-tax, Wealth-tax, Sales-tax, Customs duty and Excise duty were outstanding as at 31st March 2001 for a period of more than six months from the date they became payable except for an amount of Rs.9.75 lakhs in respect of Wealth-tax of earlier years.

19. According to the information and explanations given to us, no personal expenses of employees or Directors have been charged to Revenue account, other than those payable under contractual obligations or in accordance with generally accepted business practice.

20. The Company is not a Sick Industrial Company within the meaning of Section 3(1)(o) of the Sick Industrial Companies (Special Provisions) Act, 1985.

21. In respect of service activities of the Company:

a) There is a reasonable system of recording receipts and issues and consumption of stores commensurate with the size of the Company and nature of its business.

b) As informed to us and considering the nature of activities of the Company, the question of allocation of materials and man-hours to relative jobs does not arise.

c) In our opinion and according to information and explanations given to us there is a reasonable system of authorisation at proper levels with necessary internal controls on the issue of stores. Considering the nature of activities of the Company, the question of allocation of stores and labour to jobs does not arise.

For **Khandelwal Jain & Co.**
Chartered Accountants

Narendra Jain
Partner

For Kalyaniwalla & Mistry
Chartered Accountants

E. K. Irani
Partner

Place : Mumbai
Dated : 10 July, 2001.

Balance Sheet as at 31st March, 2001

Particulars	Schedule	As at 31.03.2001 Rupees in '000	As at 31.03.2000 Rupees in '000
I SOURCES OF FUNDS :			
1. Shareholders' Funds :			
(a) Share Capital	1	**2,850,000**	950,000
(b) Reserves and Surplus	2	**63,037,426**	60,792,179
2. Loan Funds :			
Secured Loans	3	—	45,701
TOTAL		**65,887,426**	61,787,880
II APPLICATION OF FUNDS:			
1. Fixed Assets:	4		
(a) Gross Block		**26,587,926**	22,820,294
(b) Less : Depreciation		**7,429,941**	6,377,815
(c) Net Block		**19,157,985**	16,442,479
(d) Capital Work-in-progress		**2,422,821**	887,574
(e) Investments in Communication Satellites		**2,549,064**	2,641,176
		24,129,870	19,971,229
2. Investments	5	**1,106,461**	1,158,190
3. Current Assets, Loans & Advances :			
(a) Inventories	6	**17,094**	31,616
(b) Sundry Debtors	7	**18,109,308**	25,426,297
(c) Cash and Bank Balances	8	**48,400,710**	28,081,207
(d) Other Current Assets	9	**1,232,363**	160,714
(e) Loans and Advances	10	**7,696,859**	6,046,402
TOTAL (A)		**75,456,334**	59,746,236
Less : Current Liabilities & Provisions :			
(a) Current Liabilities	11	**18,623,704**	18,119,228
(b) Provisions	12	**16,181,535**	968,547
TOTAL (B)		**34,805,239**	19,087,775
Net Current Assets (A – B)		**40,651,095**	40,658,461
TOTAL		**65,887,426**	61,787,880
Significant Accounting Policies and Notes on Accounts	21		

As per our attached report of even date

For **KHANDELWAL JAIN & CO.**
Chartered Accountants

NARENDRA JAIN
Partner

For **KALYANIWALLA & MISTRY**
Chartered Accountants

E. K. IRANI
Partner

Mumbai
Dated : 10-7-2001

For and on behalf of Board of Directors

Videsh Sanchar Nigam Limited

S. K. GUPTA
Chairman & Managing Director

R. S. P. SINHA
Director - Finance

SATISH RANADE
Company Secretary

Mumbai
Dated : 10-7-2001

Profit and Loss Account for the year ended 31st March, 2001

Particulars	Schedule	**Year Ended 31.03.2001 Rupees in '000**	Year Ended 31.03.2000 Rupees in '000
INCOME :			
Traffic Revenue	13	**71,815,160**	68,939,126
Revenue from Intelsat		**1,159,920**	736,840
Other Income	14	**6,684,239**	2,543,372
Total (A)		**79,659,319**	72,219,338
EXPENDITURE :			
Staff Cost	15	**1,709,706**	977,589
Network Cost	16	**50,235,396**	49,735,588
Operating and Other Expenses	17	**869,416**	653,176
Administrative Expenses	18	**986,469**	479,768
Interest	19	**938**	11,502
Depreciation		**1,165,056**	937,525
Less : Transferred from Capital Reserve		**(3,014)**	(3,063)
Total (B)		**54,963,967**	52,792,085
Profit before Extraordinary Items, Prior Period Adjustments and Taxes (A – B)		**24,695,352**	19,427,253
Extraordinary Items :			
Investment in ICO Global Communications (Holdings) Ltd. Written Off		**(51,729)**	(5,127,596)
Prior Year Adjustments	20	**1,031,989**	478,407
Provision For Taxation [Including Rs. 300,000 (1999-2000 Rs.300,000) for Wealth Tax]		**(7,887,300)**	(6,375,300)
Profit After Tax		**17,788,312**	8,402,764
Surplus Brought Forward From Previous Year		**137,946**	99,682
Amount Available For Appropriation		**17,926,258**	8,502,446
Appropriations :			
Dividends :			
a) Interim Dividend Declared		—	570,000
b) Proposed Dividend			
(i) Final Dividend		**2,850,000**	190,000
(ii) Special Dividend		**11,400,000**	—
Tax on Dividend		**1,453,500**	104,500
Transferred to General Reserve		**1,778,900**	7,500,000
Surplus carried to Balance Sheet		**443,858**	137,946
		17,926,258	8,502,446
Significant Accounting Policies and Notes on Accounts	21		

As per our attached report of even date

For **KHANDELWAL JAIN & CO.**
Chartered Accountants

NARENDRA JAIN
Partner

For **KALYANIWALLA & MISTRY**
Chartered Accountants

E. K. IRANI
Partner

Mumbai
Dated : 10-7-2001

For and on behalf of Board of Directors

Videsh Sanchar Nigam Limited

S. K. GUPTA
Chairman & Managing Director

R. S. P. SINHA
Director - Finance

SATISH RANADE
Company Secretary

Mumbai
Dated : 10-7-2001

Schedules forming part of the Balance Sheet

	As at 31.03.2001 Rupees in '000	As at 31.03.2000 Rupees in '000
Schedule - 1		
Share Capital		
Authorised		
300,000,000 (1999-2000 : 100,000,000) Equity Shares of Rs. 10/- each	**3,000,000**	1,000,000
Issued, Subscribed and Paid up		
285,000,000 (1999-2000 : 95,000,000) Equity Shares of Rs. 10/- each fully paid-up	**2,850,000**	950,000
Notes :		
A) Of the above :		
1) 60,000,000 shares are allotted as fully paid up, pursuant to a contract without payment being received in cash		
2) 210,000,000 (1999-2000: 20,000,000) shares are allotted as fully paid bonus shares by capitalisation of General Reserve		
3) 15,000,000 shares are allotted as fully paid up by way of Euro Issue represented by 30,000,000 American Depository Receipts (ADR). (1999-2000: 30,000,000 Global Depository Receipts (GDR)).		
TOTAL	**2,850,000**	950,000
Schedule - 2		
Reserves And Surplus		
1. **Capital Reserve :**		
Balance as per last Balance Sheet	**22,424**	24,067
Additions during the year :		
Gifted Assets	**26,523**	1,420
Foreign Exchange gain on GDR proceeds	**2,036,926**	—
(Refer Note No. 4 of Schedule 21)		
	2,085,873	25,487
Less : Transferred to Profit and Loss Account	**(3,014)**	(3,063)
	2,082,859	22,424
2. **Share Premium Account**		
Balance as per last Balance Sheet	**14,481,809**	14,481,809
3. **General Reserve**		
Balance as per last Balance Sheet	**46,150,000**	38,650,000
Less : Capitalisation of Bonus Shares	**(1,900,000)**	—
Add : Transferred from Profit and Loss Account	**1,778,900**	7,500,000
	46,028,900	46,150,000
4. **Surplus in Profit and Loss Account**		
As per account annexed	**443,858**	137,946
TOTAL	**63,037,426**	60,792,179
Schedule - 3		
Secured Loans		
Loans and Advances from Banks		
Cash Credit Accounts	**—**	45,701
(Secured by way of hypothecation of Book Debts)		
TOTAL	**—**	45,701

Schedule - 4
Fixed Assets

(Rs. in '000)

PARTICULARS	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	COST AS ON 1ST APRIL 2000	ADDITIONS DURING THE YEAR	DEDUCTIONS/ ADJUSTMENTS DURING THE YEAR	**COST AS ON 31ST MARCH 2001**	ACCUMULATED AS ON 1ST APRIL 2000	FOR THE YEAR	DEDUCTIONS/ ADJUSTMENTS DURING THE YEAR	**ACCUMULATED AS ON 31ST MARCH 2001**	**AS ON 31/3/2001**	AS ON 31/3/2000
	(1)	(2)	(3)	**(4)**	(5)	(6)	(7)	**(8)**	**(9)**	(10)
Land	1142,150	612,109	—	**754,259**	2,217	1,068	—	**3,285**	**750,974**	139,933
Buildings	1,779,525	287,145	4,552	**2,062,118**	125,504	35,215	—	**160,719**	**1,901,399**	1,654,021
Plant & Machinery	20,115,564	2,826,880	127,633	**22,814,811**	5,994,660	1,042,106	123,867	**6,912,899**	**15,901,912**	14,120,904
Furniture Fixture	162,625	17,593	886	**179,332**	48,175	14,809	836	**62,148**	**117,184**	114,450
Office Equipments	175,608	12,296	732	**187,172**	40,118	9,366	618	**48,866**	**138,306**	135,490
Computers	431,058	143,873	600	**574,331**	159,767	74,240	23	**233,984**	**340,347**	271,291
Motor Vehicles	13,764	2,542	403	**15,903**	7,374	1,054	388	**8,040**	**7,863**	6,390
Total	22,820,294	3,902,438	134,806	**26,587,926**	6,377,815	1,177,858	125,732	**7,429,941**	**19,157,985**	16,442,479
Previous Year	17,697,807	5,147,288	24,801	22,820,294	5,419,980	968,301	10,466	6,377,815	16,442,479	—
Capital Work-In-Progress									2,422,821	887,574
INVESTMENT IN COMMUNICATION SATELLITES (AT VALUATION BASED ON SHARE OF NET ASSETS) INTERNATIONAL TELECOMMUNICATION SATELLITE ORGANISATION									2,549,064	2,641,176

NOTES TO FIXED ASSETS :

1. Land includes Rs.625.47 million for Leasehold Land.
2. Land includes Rs.613.18 million for Leasehold Land for which conveyance is not registered and the land has not been transferred in the name of the Company.
3. Lease deed for Leasehold Land at Srinagar is not traceable.
4. Freehold Land Rs.12.08 million against which agreement has not been executed.
5. Building includes Rs.57.56 million for Leasehold Office Space.
6. Building includes Rs.4.40 million being cost of flats in Co-operative Society under formation.
7. Building includes Rs.335.08 million for flats/office space at Mumbai and Rs.10.77 million for flats at Jallandhar against which agreement has not been executed/registered.
8. Building includes Rs.42.51 million for Office Premises at Delhi given on lease for which the Lease Deed has not been executed.
9. Building includes Rs.63.76 million in respect of Office Premises at Delhi, based on the provisional statement of accounts received from Telecommunications Consultants India Ltd.
10. Additions to Plant & Machinery/Capital Work-in-progress/Investments in Communication Satellites includes Rs.8.64 million on account of increase in liability consequent to fluctuations in exchange rate.
11. Plant & Machinery includes Rs.1.62 million for Optic Fibre Cable installed by DoT between Lokmanya Videsh Sanchar Bhavan and Videsh Sanchar Bhavan, Mumbai, taken on estimated basis as final bills from DoT/BSNL and MTNL have not been received.
12. Plant & Machinery includes Rs.14.83 million for Assets given on Lease.
13. Plant & Machinery includes assets retired from active use but held for disposal at expected realisable value of Rs.1.47 million.
14. Depreciation for the year includes Rs.3.01million being depreciation on gifted assets.
15. Capital Work-in-Progress includes :
    i. Rs.381.67 million on account of Building. (1999-2000: Rs.312.63 million)
    ii. Rs.1,978.44 million on account of Plant & Machinery. (1999-2000: Rs.226.77 million)
    iii. Rs.62.71 million on account of Advances against Capital Expenditure. (1999-2000: Rs.348.17 million)

	As at 31.03.2001 Rupees in '000	As at 31.03.2000 Rupees in '000

Schedule - 5
Investments
(Non-Trade, Unquoted)

	As at 31.03.2001 Rupees in '000	As at 31.03.2000 Rupees in '000
Long Term : At Cost		
(A) New Skies Satellites N.V. [*3,442,150 Ordinary Shares of Common Stock of Euro 0.05 each (1999-2000 344,215 Ordinary Shares of Common Stock of Dutch Guilder 1 each) fully paid up	**562,304**	562,304
*Includes 3,097,935 Shares of Euro 0.05 each fully paid up consequent to 10:1 stock split.		
(B) ICO Global Communications (Holdings) Limited		
13,500,000 Ordinary Shares of US$ 0.01 each at a premium of US$ 99.99 per share fully paid up	**51,794**	5,179,390
Less : Investments written off during the year	**(51,729)**	(5,127,596)
	65	51,794
Less : Value of shares of New-ICO Global Communications (Holdings) Limited allotted	**(65)**	—
	—	51,794
(C) New ICO Global Communications (Holdings) Limited 180,053 (1999-2000 :Nil) Class A common stock of US$ 0.01 each (Refer Note No. 5 of Schedule 21)	**65**	—
(D) Telestra Vishesh Communications Limited 9,200,000 (1999-2000 : 9,200,000) Equity Shares Rs. 10/- each fully paid up	**92,000**	92,000
(E) Inmarsat Ventures plc. (formerly named as Inmarsat (Holdings) Limited) # 2022190 Ordinary Shares of 10 Pence each (1999-2000 : 202,219 Ordinary Shares of 1 Pound each) fully paid up	**452,092**	452,092
# Includes 1,819,971 shares of 10 Pence each fully paid consequent to 10:1 stock split.		
(F) VSNL Seamless Services Private Limited 20 (1999-2000 : 20) Equity Shares of Rs. 10/- each fully paid up (Face Value of Rs. 200)	—	—
TOTAL	**1,106,461**	1,158,190

Schedule - 6
Inventories

	As at 31.03.2001 Rupees in '000	As at 31.03.2000 Rupees in '000
Consumable Stores & Spares at Cost (Refer Note No. 8 of Schedule 21)	**17,647**	32,516
Less : Provision for expected loss on obsolete stock	**(553)**	(900)
TOTAL	**17,094**	31,616

	As at 31.03.2001 Rupees in '000	As at 31.03.2000 Rupees in '000

Schedule - 7
Sundry Debtors (Unsecured)

Debts outstanding for a period exceeding Six Months		
Considered Good	**5,054,222**	6,125,298
Considered Doubtful	**1,008,933**	915,775
	6,063,155	7,041,073
Less : Provision for Doubtful Debts	**(1,008,933)**	(915,775)
	5,054,222	6,125,298
Other Debts - Considered Good	**13,055,086**	19,300,999
TOTAL	**18,109,308**	25,426,297

Schedule - 8
Cash and Bank Balances

Cash on Hand	**576**	615
Remittance in Transit	**14,453**	2,088
Balances with Scheduled Banks		
In Current Accounts *	**485,330**	19,447,659
In Deposit Accounts **	**47,900,351**	8,630,845
	48,385,681	28,078,504
* Includes an amount of Rs. Nil (1999-2000 : Rs. 176,789/-) and ** Includes an amount of Rs. 7,696,639,860/- (1999-2000 : Rs. 7,234,970,011/-) representing unutilised monies raised by way of Euro Equity Issue		
TOTAL	**48,400,710**	28,081,207

Schedule - 9
Other Current Assets

Interest Receivable	**1,231,343**	159,581
Rent Receivable	**465**	486
Other Receivables	**555**	647
TOTAL	**1,232,363**	160,714

Schedule - 10
Loans And Advances (Unsecured - Considered Good)

Loan to VSNL Co-operative Society Ltd.	**2,500**	2,500
Advances recoverable in cash or in kind or for value to be received	**617,317**	571,475
Advance Payment of Tax (Net of Provision)	**7,077,042**	5,472,427
TOTAL	**7,696,859**	6,046,402

	As at 31.03.2001 Rupees in '000	As at 31.03.2000 Rupees in '000

Schedule - 11
Current Liabilities

Traffic Creditors	**11,273,307**	13,489,289
Sundry Creditors :		
A) Dues to Small Scale Industries*	**126**	757
B) Others	**4,050,937**	1,840,766
Income Received in Advance	**2,045,987**	1,468,639
Government of India Current Account	**6,836**	18,339
Other Liabilities	**1,246,511**	1,301,438
*Includes amount due to M/s. Enertech Electronics for more than 30 days and in excess of Rs. 1 lakhs.		
TOTAL	**18,623,704**	18,119,228

Schedule - 12
Provisions

Provision for Leave Encashment	**112,375**	84,367
Provision for Pension	**3,563**	3,532
Provision for Gratuity	**31,647**	16,148
Provision for Interim Dividend	**—**	570,000
Provision for Proposed Final Dividend	**2,850,000**	190,000
Provision for Proposed Special Dividend	**11,400,000**	—
Provision for Tax on Dividend	**1,453,500**	104,500
Provision for Diminution in the value of Fixed Assets	**330,450**	—
TOTAL	**16,181,535**	968,547

Schedules forming part of the Profit & Loss Account

	Year Ended 31.03.2001 Rupees in '000	Year Ended 31.03.2000 Rupees in '000

Schedule - 13
Traffic Revenue

Telephone	**64,828,391**	62,870,080
Telex	**224,786**	257,157
Telegraph	**29,316**	36,566
Leased Channel	**3,134,267**	3,018,516
Television	**184,339**	72,407
Gateway Packet Switching System	**28,719**	46,174
Gateway Electronic Mail Service	**51,547**	140,379
Gateway Internet Access System	**2,980,291**	2,094,650
Other Traffic Revenue	**1,129,516**	744,724
Variance in Estimates (Net)	**(776,012)**	(341,527)
TOTAL	**71,815,160**	68,939,126

Schedule - 14
Other Income

Interest on Bank Deposits - Gross (TDS Rs.483,959,269/-, 1999-2000 : Rs. 96,081,546/-)	**3,192,799**	1,112,889
Interest on Other Deposits and Advances -Gross (TDS Rs. Nil, 1999-2000 : Rs. 492,288/-.)	**8,945**	10,193
Interest on Income Tax Refund	**764,494**	—
Miscellaneous Income	**115,702**	89,666
Rent	**19,106**	19,501
Other Provisions Written Back (Net)	**20,548**	173,405
Gain on Exchange Fluctuation (Net)	**2,562,645**	1,137,718
TOTAL	**6,684,239**	2,543,372

	Year Ended 31.03.2001 Rupees in '000	Year Ended 31.03.2000 Rupees in '000

Schedule - 15
Staff Cost

Salaries & Bonus	**1,109,848**	668,031
Contribution to Provident and Other Funds	**107,964**	79,247
Staff Welfare Expenses	**491,894**	230,311
TOTAL	**1,709,706**	977,589

Schedule - 16
Network Cost

Rent of Satellite Channels	**2,711,775**	2,206,946
Rent of Landlines	**1,020,064**	543,099
Administrative Lease Charges	**93,384**	66,700
Licence Fee to Dept. of Telecommunication	**4,967,557**	4,702,500
Charges for use of Transmission Facilities :		
Telephone	**39,817,416**	41,023,380
Telex	**139,697**	201,064
Telegraph	**27,367**	43,409
Gateway Packet Switching System	**22,258**	32,304
Television	**22,512**	5,294
Internet	**1,208,488**	673,045
Leased Channel	**10,513**	22,299
Others	**194,365**	215,548
TOTAL	**50,235,396**	49,735,588

Schedule - 17
Operating And Other Expenses

Consumption of Stores	**11,789**	18,261
Light & Power	**270,928**	234,534
Repairs and Maintenance :		
Buildings	**26,235**	33,373
Plant & Machinery	**527,305**	343,969
Others	**33,159**	23,039
TOTAL	**869,416**	653,176

Schedule - 18
Administrative Expenses

Rent	**17,689**	18,316
Rates & Taxes	**30,554**	30,414
Travelling Expenses	**45,574**	42,251
Postage	**6,378**	5,527
Telephone and Telex	**32,913**	34,335
Printing and Stationery	**13,952**	18,271
Books and Periodicals	**4,005**	7,867
Vehicle Expenses	**10,384**	9,206
Hospitality	**2,139**	1,655
Security Expenses	**29,658**	26,322
Computer Expenses	**37,361**	7,462
Conveyance	**2,829**	2,493
Training Expenses	**3,916**	5,248
Recruitment Expenses	**4,554**	2,655
Legal and Professional Fees	**40,980**	21,809

	Year Ended 31.03.2001 Rupees in '000	Year Ended 31.03.2000 Rupees in '000

Schedule - 18 (Contd.)
Administrative Expenses

Advertising and Publicity	**116,344**	112,773
Bad Debts	**—**	46,129
Provision for Doubtful Debts	**103,965**	101,725
Remuneration to Auditors :		
Audit Fees	**645**	645
Tax Audit Fees	**148**	135
Reimbursement of Expenses	**30**	47
Commonwealth Telecom. Council Contribution	**4,928**	6,734
Water Charges	**9,856**	9,697
Insurance	**15,655**	11,746
Donations	**100,441**	10,965
Loss/(Profit) on Fixed Assets Sold/Discarded	**5,328**	(81,218)
Provision for Diminution in the value of Fixed Assets	**330,450**	—
Miscellaneous Expenses	**15,793**	26,559
TOTAL	**986,469**	479,768

Schedule - 19
Interest

On Cash Credit	**—**	61
Others	**938**	11,441
TOTAL	**938**	11,502

Schedule - 20
Prior Year Adjustment

Income:		
Traffic Revenue	**(128,806)**	931,986
Miscellaneous Income	**2,340**	509
Gain/(Loss) on Exchange Fluctuation (Refer Note No. 4 of Schedule 21)	**39,002**	(495)
Interest on Bank Deposits (Refer Note No. 4 of Schedule 21)	**1,387,298**	—
EXPENSES :		
Provision of Depreciation for Earlier Years (Net)	**(12,802)**	(27,291)
Charges for Use of Transmission Facilities	**(128,852)**	(405,397)
Salaries, Bonus and Staff Welfare	**(22,215)**	10
Administration & Other Expenses	**(96)**	(5,472)
Repairs and Maintenance	**(102,886)**	(46,725)
Travelling Expenses	**(219)**	26,497
Interest	**(775)**	4,785
TOTAL	**1,031,989**	478,407

Note : Figures in brackets are debits

Schedule - 21

Significant Accounting Policies and Notes to the Accounts

A. Significant Accounting Policies:

I. Accounting Concepts:

i) Accounting policies are consistent with generally accepted accounting principles except wherever stated otherwise.

ii) Financial statements are based on historical cost.

iii) Mercantile System of Accounting is followed and Income and Expenditure are accounted for on accrual basis.

iv) Liquidated damages earned by the company on account of delay in execution of contracts and supply of materials and services by the contractors and suppliers including contracts for capital assets have been taken as revenue income in Profit and Loss Account.

v) Income and Expenditure up to Rs. 0.10 million in each case pertaining to prior years are accounted for as current year's income and expenditure.

vi) Prepaid expenses below Rs.0.01 million in each case are accounted for as current year's expenditure.

vii) Liabilities for expenses other than statutory liabilities are provided for only if the amounts exceed Rs.0.10 million in each case.

II Fixed Assets:

i) The amounts paid or received according to the terms of transactions for acquiring/granting, from time to time, Indefeasible Rights of User for international telecommunication circuits in Submarine Cables are recorded as additions/deductions to fixed assets.

ii) The Company, as successor to the Overseas Communications Service (OCS) of the Department of Telecommunications (DOT) continues to be the Indian Signatory to the International Telecommunications Satellite Organisation (INTELSAT). Net Capital Contributions (that is, after adjusting the amortisations) are billed by this Organisation to the Signatories from time to time in proportion to the respective ownership share. The totals of such net capital contributions are disclosed as Investments in Communication Satellites under Fixed Assets.

iii) Fixed Assets acquired by the Company are capitalised at cost inclusive of freight, duties, taxes and all incidental expenses related thereto together with the cost of spares, if supplied with the assets.

iv) Fixed Assets received as gifts from other Foreign Telecom Administrations are capitalised and credited to capital reserve on the basis of Notional cost (cost adopted by Customs Authorities for custom duty purpose) Freight, Insurance and Custom duty.

v) In case of borrowed funds and liabilities in foreign currencies for the acquisition of fixed assets, the exchange differences are adjusted to the cost of fixed assets.

III. Depreciation On Fixed Assets:

i) In respect of assets taken over from Overseas Communications Service, depreciation has been provided for on Straight Line Method at the rates adopted in the previous years in terms of Circular No. 1/86 dated 21.5.1986 issued by the Department of Company Affairs. The same is continued to be provided for on the original cost to the Overseas Communications Service instead of takeover cost to the Company.

ii) On the assets purchased/acquired during the period from 1st April, 1986 to 31st March, 1994, depreciation has been provided for on written down value method at the rates specified from time to time in Schedule XIV of the Companies Act, 1956.

iii) On assets purchased/acquired after 31st March, 1994 depreciation has been provided for on Straight Line Method at the rates prescribed in Schedule XIV of the Companies Act, 1956.

iv) On Plant and Machinery which has been considered to be Continuous process plant, depreciation has been provided for at the applicable rate as per Schedule XIV of the Companies Act, 1956.

v) Depreciation on additions to assets or on sale/disposal of assets is calculated pro-rata from the month of such addition or upto the month of such sale/disposal as the case may be.

vi) Leasehold Lands are amortised over the respective period of lease.

vii) Depreciation on Indefeasible Rights of User for International Telecommunication Circuits in Submarine Cables is provided for on the basis of balance life as intimated by the sellers.

viii) Depreciation on notional cost of gifted assets is provided for by annual transfer out of the Capital Reserve.

ix) Assets costing upto Rs.5,000/- each are fully depreciated in the year of purchase.

x) The gain or loss arising due to exchange rate fluctuation arising on repayment/restatement of foreign currency liabilities incurred for acquiring fixed assets is adjusted to the cost of the assets and depreciation is charged prospectively over the residual life of such assets.

IV. Investments:

Long Term Investments are valued at cost. Provision for diminution in the value of investments is made to recognise a decline, other than temporary.

V. Inventories:

Items of Consumable Stores and Spares are valued at weighted average cost after making adjustments for variations that come to notice during physical verification of stock. Machinery spares which can be used only in connection with an item of fixed asset, whose use is expected to be irregular and which are procured subsequent to the commissioning of asset are charged to Profit & Loss Account.

VI. Revenue Recognition:

I) **Traffic Revenues:**
Major revenue is on account of recovery from Foreign Telecommunication Administrations on account of incoming traffic and recovery from Department of Telecommunications/Bharat Sanchar Nigam Limited (BSNL) on account of delivering calls on foreign network. Estimates are included wherever information is awaited.

ii) **Revenue From International Telecommunication Satellite (Intelsat):**
The Revenues of INTELSAT Organisation are utilised to meet the operating expenses and amortisation costs and any surplus then remaining is distributed to the Signatories as Compensation for use of Capital, based on the respective Ownership share of the Signatories in the Organisation from time to time. Such amounts received by the Company as the Indian Signatory from INTELSAT towards Compensation for use of Capital are accounted for as Revenue.

iii) **Revenue In Respect Of Insurance, Other Claims, Interest Etc.**
Revenue in respect of insurance and other claims, interest, etc., is recognised only on reasonable certainty of ultimate collection.

VII. Cost Of Operations:

The major component of cost of operations is the transmission cost. The transmission cost includes cost of delivering a call on domestic network, which is payable to Department of Telecommunications/Bharat Sanchar Nigam Limited and cost of delivering a call on foreign network payable to Foreign Telecommunication Administrations. Estimates are included wherever information is awaited.

VIII. Research And Development Expenditure :

Revenue expenses on Research & Development are charged to the Profit and Loss Account in the year in which these are incurred. Capital expenditure is taken as addition to the fixed assets.

IX. Retirement Benefits:

i) Leave Encashment benefit is charged to Profit & Loss Account on the basis of Actuarial valuation.

ii) Provision for contribution to the Employees' Gratuity Trust Fund is based on actuarial valuation after taking into account the funds available with the Gratuity Trust.

iii) Contribution to Employees' Provident Fund, Benevolent Fund and Provision for Pension are charged to Profit & Loss Account.

X. Foreign Currency Transactions:

i) Foreign currency transactions are normally recorded at the exchange rates prevailing on the first working day of the month in which the transaction falls. In the case of traffic revenue and the charges for use of transmission facilities, foreign currency transactions are recorded at the exchange rate prevailing on the last day of the prior month.

ii) Monetary items denominated in foreign currencies at the year end other than those referred to in

(iii) below are translated into Rupees at the rates of exchange prevailing at the year end.

iii) Gains and losses on foreign exchange transactions are taken to Profit & Loss Account except that:

(a) In respect of fixed assets, gains and losses on transactions of long term liabilities incurred to acquire fixed assets are adjusted to the cost of such assets.

(b) In respect of parties, the receivables from whom are considered doubtful and for which provision has been made, exchange loss has been charged to Profit & Loss Account and exchange gain has been ignored.

XI. Contingent Liabilities:

Contingent Liabilities are not provided for but are disclosed by way of notes.

XII. Provision For Doubtful Debts:

Provision for Doubtful Debts is made on the following basis:

(a) In respect of outstandings from domestic parties, 50% of the amount outstanding for more than one year but less than three years and 100% of the amount outstanding for more than three years is considered doubtful.

(b) In respect of outstandings from foreign parties with whom the Company has ceased direct telecommunication links, 100% of the amount outstanding is considered as doubtful.

(c) In respect of outstandings not covered under item (a) and (b) above, the amounts considered as doubtful by management.

B. Notes Forming Part Of The Accounts :

1. The Company was incorporated on 19.3.1986. Government of India vide its Order No. G 25015/6/86-OC dated 27.3.1986 transferred all the assets and liabilities of the Overseas Communications Service (part of the Department of Telecommunications, Ministry of Communications) as appearing in the Balance Sheet as at 31.3.1986 to the Company with effect from 1.4.1986. A regular Transfer Deed transferring all the Assets and Liabilities from the Ministry of Communications, Government of India to the Company remains to be executed.

2. Government of India Current Account stands debited/credited with the following adjustments :

i) Payments on account of Death-cum-Retirement Gratuity, Provisional Pension, Commuted value of Pension, final settlement of General Provident Fund, etc. in respect of erstwhile Overseas Communications Service employees.

ii) Receipts and payments pertaining to the period prior to 1.4.1986 to the extent income/expenses are not fully provided for upto 31.3.1986.

iii) Leave encashment paid for those employees who opted for pensionary benefits from 2.1.1990.

The aforesaid adjustments are subject to approval and credit balance of Rs.6.84 million is subject to confirmation of Government of India.

3. a) The following balances are subject to reconciliation/adjustments, if any :

i) Branch Adjustments : The Branch accounts in the Head Office ledgers for the current year are reconciled with branch books. However, old balances could not be reconciled and the difference of Rs.0.39 million (1999-00: Rs.0.39 million) has been transferred to Branch Adjustment Account and shown as Other Receivable under Other Current Assets (Schedule 9).

ii) Investments in communication satellite pertaining to INTELSAT amounting to Rs.2,549.06 million (1999-00: Rs.2,641.18 million).

(b) Balances in respect of Sundry Debtors and Sundry Creditors including Traffic Creditors are subject to confirmations /adjustments, if any.

(c) Advances include Customs Duty of Rs.2.76 million (1999-00 : Rs.2.11 million) paid as per the demand of the customs authority. The demands have been disputed by the Company and are pending in appeal proceedings and hence the said amount has been included under the head 'Advances recoverable in cash or in kind or for value to be received'.

4. The company issued Global Depository Receipts (GDRs) aggregating to US$ 417.90 million in March/April 1997. In terms of the approval of the Government of India, the GDR proceeds are to be utilised for capital expenditure to the extent of not less than 75% thereof. The company intends to utilise 100% of GDR proceeds for capital expenditure and building strategic assets and making investments in Telecommunication projects. With the approval of Reserve Bank of India the unutilised portion of GDR proceeds were being kept in banks abroad in short term deposits.

However, during the year, Reserve Bank of India directed the company to repatriate the GDR proceeds retained abroad, barring US$ 50 million. Accordingly, an amount of US$ 188.03 million comprising principal amount of US$ 151.36 million and interest earned on such deposits amounting to US$ 36.67 million was repatriated. The amount of US$ 50 million retained abroad in short term deposits comprises of US$ 28.30 million out of GDR proceeds and US$ 21.7 million out of the interest earned on these proceeds. Foreign exchange gain realised on repatriation of unutilised GDR proceeds of US$ 151.36 million amounting to Rs.1,669.27 million has been credited to capital reserve.

Hitherto, interest earned on deposits in banks abroad, and foreign exchange gain on such interest was considered as 'income earned during the construction period' and was being deducted from the value of the fixed assets/capital work-in-progress/Investments in Telecommunication projects as the case may be. The unutilised funds in foreign currency at the year end, not being considered as monetary items, were being carried in the books of account at the original rate of exchange without being restated at the year end rate. Accordingly, assets purchased out of these proceeds were recorded at the original rate of exchange.

In view of the repatriation of part of the GDR proceeds during the year, the company has changed its method of accounting as under :

a) Assets purchased during the year out of GDR proceeds are recorded at the rate of exchange prevailing on the date of transaction and the resultant foreign exchange gain thereon is credited to capital reserve. As a result of this change, capital reserve and fixed assets/capital work-in-progress are higher by Rs.65.10 million.

b) Unutilised GDR proceeds in foreign currency, at the year end are translated into Rupees at the year end exchange rate and the resultant gain amounting to Rs.302.56 million has been credited to capital reserve. As a result capital reserve and the bank deposits are higher by the same amount.

c) From the current year, the interest earned on the deposits made out of GDR proceeds including gain/loss on exchange fluctuation thereon is being treated as 'revenue income'. Accordingly, the interest earned on these deposits amounting to Rs.797.94 million and foreign exchange gain on such interest amounting to Rs.281.05 million have been recognised as income and credited to profit and loss account. Further, such interest earned Rs.1,387.30 million and the gain/loss on foreign exchange fluctuation Rs.39.00 million relating to the earlier years pending adjustment to the fixed assets/ capital work in progress/Investments in Telecommunication projects as on 1st April, 2000 aggregating to Rs.1,426.30 million has been credited to the Profit & Loss Account under the head Prior year adjustments (Schedule 20). As a result, interest on bank deposits, gain on exchange fluctuation and prior year adjustments are higher by Rs.797.94 million, Rs.281.05 million and Rs.1,426.30 million respectively. Further, fixed assets/capital work-in-progress and profit for the year are higher by Rs.2,505.29 million.

Consequent cumulative effects of the above mentioned changes in the method of accounting are:

Capital reserve is higher by Rs.367.66 million (in addition to exchange gain of Rs.1,669.27 million realised on repatriation of part of the GDR proceeds) fixed assets/capital work in progress, deposits with bank, profit for the year are higher by Rs.2,570.39 million, Rs.302.56 million and Rs.2,505.29 million respectively.

5. The Company held 13.5 million ordinary shares of US$ 100 each (including premium of US$ 99.99) in ICO Global Communications (Holdings) Limited (ICO) at a cost of Rs.5,179.39 million. ICO filed a voluntary petition for reorganisation under Chapter 11 of United States of America bankruptcy code and emerged from Chapter 11 protection on 16th May, 2000. As a part of restructuring plan, there has been a substantial reduction in the equity stake of existing Investors in the restructured ICO known as New ICO Global Communications (Holdings) Ltd (New ICO). Consequently, in the year 1999-2000, 99% of the investment amounting to Rs.5,127.60 million was written off to Profit & Loss Account and the balance 1% of the investment value at Rs.51.79 million was retained for adjustment against shares receivable in New ICO. During the year, by virtue of reorganisation of ICO, the company received 180,053 shares of Class A common stock of US$ 0.01 each amounting to Rs.0.06 million and 975,398 warrants, with option to purchase shares of Class A common stock exercisable, in New ICO by 15th May, 2006. The shares of New ICO are recorded at Face value and consequently the balance value of investment in ICO of Rs.51.73 million has been written off during the year.

6. During the year 1998-99 the company had spent Rs. 500 million towards the Gateway Equipments for Iridium India Telecom Limited (IITL), Pune, which was capitalised and is being depreciated. IITL has stopped its operational activities since April, 2000. The company is in the process of identifying alternative use of the equipment, pending which provision for diminution in value of Rs. 330.45 million being 75% of the book value as at 31.03.2001 has been made.

7. As at 31.3.2001, there were inward traffic remittances amounting to Rs.9.60 million (1999-00 : Rs.10.61 million) pertaining to earlier years remaining unadjusted against individual debtors. In the absence of full details, the amounts so received are adjusted against Sundry Debtors.

8. The company has earlier been treating the machinery spares which can be used only in connection with an item of fixed asset, whose use is expected to be irregular and which are procured subsequent to the commissioning of assets as Inventories and has been charging the same to Profit and Loss Account on actual consumption under the head 'Consumption of stores & spares'. As per Accounting Standard 2, 'Valuation of Inventories' (Revised) such spares are not considered as Inventory. Accordingly, the same has been charged to Profit & Loss Account at the time of procurement itself under the head 'Repairs & Maintenance'. Consequent to this change the profit for the year and Inventories are lower by Rs.27.84 million.

9. Consequent to the implementation of revised pay scales based on the Department of Public Enterprises recommendations, staff cost for the year includes Rs. 242.19 million on account of arrears for earlier years. Further, pending necessary approvals an estimated amount of Rs. 403.72 million (1999-2000 : Rs. 178.80 million) is provided during the year towards perquisites, overtime and performance reward.

10. Managerial Remuneration under Section 198 of the Companies Act, 1956 :

Remuneration paid to the Chairman and Managing Director, Acting Chairman and Managing Director and whole time Directors is as follows:

	2000-2001 (Rs. in '000)	1999-2000 (Rs. in '000)
i) Salaries	**2,182**	2,085
ii) Contribution to Provident and other Funds	**401**	369
iii) Monetary value of perquisites	**1,156**	393
TOTAL	**3,739**	2,847

11. Value of Imports on C.I.F. basis :

	2000-2001 (Rs. in '000)	1999-2000 (Rs. in '000)
i) Stores & Spares	**35,539**	22,486
ii) Capital Goods	**418,911**	578,210

12. Expenditure in Foreign Currency on accrual basis on account of :

	2000-2001 (Rs. in '000)	1999-2000 (Rs. in '000)
i) Charges for use of Transmission Facilities (Gross)	**13,908,150**	13,399,315
ii) Space Segment utilisation Charges	**2,711,910**	2,206,946
iii) Administrative Lease Charges	**91,173**	66,700
iv) Repairs & Maintenance	**455,856**	169,469
v) Advertisement	**4,312**	1,062
vi) Legal & Professional Fees	**2,379**	282
vii) Others	**25,078**	22,873
TOTAL	**17,198,858**	15,866,647

13. Earnings in Foreign Exchange on accrual basis in respect of :

	2000-2001 (Rs. in '000)	1999-2000 (Rs. in '000)
i. Traffic Revenue (Gross)	**46,449,281**	45,635,393
ii. Revenue from Intelsat/ Inmarsat	**1,159,920**	736,839
iii. Interest Income	**925,922**	1,676,239
iv. Miscellaneous Income	**137,908**	122,807
TOTAL	**48,673,031**	48,171,178

14. Value of imported and indigenous stores & spares Consumed [including for Repairs & Maintenance Rs. 22,306 thousands (1999 - 2000 : Rs. 590 thousands)]

	2000-2001 (Rs. in '000)		1999-2000 (Rs. in '000)	
	Value	**%**	Value	%
Imported	**21,394**	**62.75**	7,401	38.91%
Indigenous	**12,701**	**37.25**	11,620	61.09%
TOTAL	**34,095**	**100.00**	19,021	100%

15. Estimated amount of contracts remaining to be executed on Capital Account and not provided for Rs. 2,886.68 million (1999-00 : Rs. 3,366.43 million).

16. Contingent Liabilities not provided for :

	2000-01 (Rs. in '000)	1999-2000 (Rs. in '000)
a) Letters of Credit	**102,041**	97,549
b) Guarantee and Counter Guarantee Outstanding	**78,296**	95,466
c) Claims against the Company not acknowledged as Debts.		
i) Property Tax	**853**	—
ii) Motor Accident Case	**198**	198
iii) Liquidated Damages	**3,774**	28,032
iv) Disputed demands of Sales Tax. (Company has furnished bank guarantee for like amount)	**343**	343
v) Disputed claims of custom duty paid under protest	**11,373**	11,373
vi) Repairs & Maintenance charges of DoT links of which Rs. 6 million has been deducted by DoT, Chennai unilaterally against their claim of Rs. 6.73 million	**62,075**	77,669
vii) Rent of Poddar Court	**Not ascertainable**	Not ascertainable
viii) Disputed royalty & licence fees payable on WPC link to DoT	**245,700**	—
ix) Disputed demands of customs duty against which the Company has paid an advance of Rs. 51,120,827/- under protest.	**Not ascertainable**	Not ascertainable
x) Ground rent	**3,068**	2,828
xi) Disputed capital cost towards ND-DDN link and associated delayed payment charges with DoT	**196,558**	196,558
xii) Disputed amount of Income tax relating to non-recovery of tax at source against which the company has paid Rs. 10 crores under protest.	**187,264**	187,264
xiii) Interest/Penalty Payable to MTNL on delayed payment with respect to VSB-LVSB OFC Link Commissioned in June 1994	**2,696**	NIL
xiv) Interest Payable to MIDC for delay with respect to space purchased at MAHAPE	**263**	NIL

(d) For the Assessment years 1988-89, 1994-95 and 1996-97 to 1998-99, Income Tax authorities have raised demands aggregating to Rs. 14,727.80 million including interest of Rs. 6,342.91 million on the disallowance of license fee being paid by the company to DoT and other claims against which amounts aggregating to Rs. 10,624.95 million have been paid/ adjusted. The claim for licence fee for assessment year 1995-96 has been allowed by Income Tax Appellate Tribunal. The Company is advised that the demands are not likely to be sustained and hence no further provision is considered necessary.

(e) As per the terms of MoU signed between DoT and the Company for the year 1998-1999 interest was payable for non-settlement of the traffic dues and super group rental charges, which has been estimated at Rs. 237 million. The matter has been taken up with DoT and DoT has constituted a committee for resolving various issues including this. Since there was no provision for payment of interest in the MoU's executed prior to the year 1998-1999 or in the subsequent years, the company is confident that it will not be liable to pay any interest to DoT and accordingly no provision has been made for this amount.

17. Previous year's figures have been regrouped and reclassified wherever necessary.

18. Balance Sheet Abstract and Company's General Business Profile in terms of Part IV of Schedule VI to the Companies Act, 1956.

I Registration Details

Registration No.	39266	State Code	11 (REFER CODE LIST)
Balance Sheet Date	31 (Date)	03 (Month)	2001 (Year)

II Capital Raised during the year (Amount in Rs. Thousands)

Public Issue (GDR Issue)	Rights Issue
NIL	NIL
Bonus Issue	Private Placement
1900000	NIL

III Position of Mobilisation and Deployment of Funds (Amount in Rs. Thousands)

Total Liabilities	Total Assets
100692665	100692665

Sources of Funds

Paid-up Capital	Reserves & Surplus
2850000	63037426
Secured Loans	Unsecured Loans
NIL	NIL

Application of Funds

Net Fixed Assets	Investments
24129870	1106461
Net Current Assets	Misc. Expenditure
40651095	NIL
Accumulated Losses	
NIL	

IV Performance of Company (Amount in Rs. Thousands)

Turnover	Total Expenditure
79659319	53983707
Profit/Loss before Tax	Profit/Loss after Tax
✓ + – 25675612	✓ + – 17788312

(Please tick appropriate box + for Profit, - for Loss)

Earning per Share in Rs.	Dividend rate %
62.42	500

V Generic Names of Three Principal Products/Services of Company (as per monetary terms)

Item Code No. (ITC Code)	
Product Description	INTERNATIONAL TELECOM MUNICATIONS SERVICES
Item Code No. (ITC Code)	
Product Description	
Item Code No. (ITC Code)	
Product Description	

* Note : For ITC code of products please refer to the publication Indian Trade Classification based on harmonized commodity description and coding system by Ministry of Commerce, Directorate General of Commercial Intelligence & Statistics, Calcutta - 700 001

Annexure I

Code List 1 : State Codes

State Code	State Name	State Code	State Name
01	Andhra Pradesh	02	Assam
03	Bihar	04	Gujarat
05	Haryana	06	Himachal Pradesh
07	Jammu & Kashmir	08	Karnataka
09	Kerala	10	Madhya Pradesh
11	Maharashtra	12	Manipur
13	Meghalaya	14	Nagaland
15	Orissa	16	Punjab
17	Rajasthan	18	Tamil Nadu
20	Uttar Pradesh	21	West Bengal
22	Sikkim	23	Arunachal Pradesh
24	Goa	52	Andaman Islands
53	Chandigarh	54	Dadra Islands
55	Delhi	56	Daman & Diu
57	Lakshwadeep	58	Mizoram
59	Pondicherry		

Signatures to Schedule 1 To 21

As per our attached report of even date

For **KHANDELWAL JAIN & CO.**
Chartered Accountants

NARENDRA JAIN
Partner

For **KALYANIWALLA & MISTRY**
Chartered Accountants

E. K. IRANI
Partner

Mumbai
Dated : 10-7-2001

For and on behalf of Board of Directors

Videsh Sanchar Nigam Limited

S. K. GUPTA
Chairman & Managing Director

R. S. P. SINHA
Director - Finance

SATISH RANADE
Company Secretary

Mumbai
Dated : 10-7-2001

Cash Flow Statement for the year ended 31st March, 2001

	2000-2001 (Rupees in '000)	1999-2000 (Rupees in '000)
A. Cash Flow from Operating Activities		
Net profit before Tax & Extraordinary Items	**24,695,352**	19,427,253
Less : Adjustments For :		
Interest on Bank Deposits	**(3,192,799)**	(1,112,889)
Interest on Other Deposits	**(8,945)**	(7,352)
Interest on Income Tax Refund	**(764,494)**	—
Loss/(Profit) on Fixed Assets Sold/Discarded	**5,328**	(81,217)
Unrealised Foreign Exchange Difference	**(8,102)**	130,273
Provisions Written Back	**(20,548)**	(173,405)
Add : Non Cash Operative Expenses :		
Depreciation (Less Gifted Assets)	**1,162,042**	934,462
Depreciation Adjustments for Prior Years	**12,802**	30,776
Provision for Obsolete Stores	**—**	900
Provision for Diminution in Value of Assets	**330,450**	—
Provision for Loss on Disposal of Asset	**—**	3,632
Bad Debts Written Off	**—**	46,129
Provision for Doubtful Debt	**103,965**	101,725
Interest Paid	**938**	11,502
Operating Profit Before Working Capital Changes	**22,315,989**	19,311,789
Adjustments For :		
Trade Receivable	**7,213,023**	562,422
Other Current Assest	**113**	(26,457)
Inventories	**14,869**	(14,505)
Loans And Advanced	**(45,842)**	23,811
Current Liabilities and Provision	**568,215**	(4,026,338)
Cash Generated For Operations	**30,066,367**	15,830,722
Interest Paid	**(938)**	(11,502)
Direct Taxes Paid	**(9,491,914)**	(9,253,724)
Interest on Income Tax Refund	**764,494**	—
Cash Flow Before Extraordinary Items	**21,338,009**	6,565,496
Prior Period Adjustments and Extraordinary Items		
Prior Period Adjustments	**1,031,989**	478,407
Extraordinary Items	**(51,729)**	(5,127,596)
Net Cash From/(Used In) Operating Activities - Total (A)	**22,318,269**	1,916,307

	2000-2001 (Rupees in '000)	1999-2000 (Rupees in '000)
B. Cash Flow From Investing Activities		
Purchase of Fixed Assets	**(3,873,793)**	(5,145,868)
Capital Work-in-Progress	**(1,535,247)**	2,282,493
Sale of Fixed Assets/Stores	**1,623**	95,551
Investments in Satellite Communication	**92,112**	(330,603)
Purchase of Investment	**51,729**	4,586,760
Interest/Dividend Received	**3,201,743**	1,120,241
Adjustment for Interest Accrued	**(1,071,760)**	—
Net Cash From/(Used In) Investing Activities - Total (B)	**(3,133,593)**	**2,608,575**
C. Cash Flow From Financing Activities		
Foreign Exchange Gain on GDR Proceeds	**2,036,926**	—
Unrealised Foreign Exchange Difference on GDR Proceeds	**(302,559)**	—
Repayment of Secured Loans	**(45,701)**	20,156
Dividend Paid (Including Dividend Tax	**(864,500)**	(843,600)
Net Cash From/(Used In) Financing Activities - Total (C)	**824,166**	**(823,444)**
Unrealised Foreign Exchange Difference (D)	**310,661**	**(130,273)**
Net Increase In Cash And Cash Equivalents (A+B+C+D)	**20,319,503**	**3,571,165**
Cash & Cash Equivalents : Opening Balance	**28,081,207**	**24,510,042**
Cash & Cash Equivalents : Closing Balance	**48,400,710**	**28,081,207**
Net Increase In Cash And Cash Equivalents	**20,319,503**	**3,571,165**

FOR AND ON BEHALF OF THE BOARD OF DIRECTORS
VIDESH SANCHAR NIGAM LIMITED

Mumbai
Dated: 27-7-2001

S.K. GUPTA
Chairman & Managing Director

R.S.P. SINHA
Director–Finance

SATISH RANADE
Company Secretary

AUDITORS' CERTIFICATE

We have examined the attached Cash Flow Statement of Videsh Sanchar Nigam Limited for the year ended 31st March 2001. The statement has been prepared by the Company in accordance with the requirements of clause 32 of listing agreement with Mumbai Stock Exchange and is based on and is in agreement with the corresponding Profit and Loss Account and Balance Sheet of the company covered by our report of even date to the members of the Company.

As per our attached report of even date.

For **Khandelwal Jain & Co.**
Chartered Accountants

Narendra Jain
Partner

For **KALYANIWALLA & MISTRY**
Chartered Accountants

E. K. IRANI
Partner

Place : Mumbai
Dated : 10-7-2001

Addendum 1 to Directors' Report

Statutory Auditors' Report

Replies to the comments of Statutory Auditors included in their Report for the year 2000-2001 are attached as Annexure 2 and the same form part of the Directors' Report.

On behalf of the Board of Directors

Regd. Office : Mumbai
Dated : August 24, 2001.

S. K. Gupta
Chairman & Managing Director

Annexure 2 to the Directors' Report

Replies to the comments of Statutory Auditors included in their Report for the year 2000-2001.

(a) Note No. 2 regarding debit and credit adjustments in Government of India Current Account being subject to approval and confirmation of the Government.

Reply : After conversion of OCS into VSNL, in order to avoid inconvenience to the employees (particularly the retired), the Company has been making payments (on behalf of Government of India) of terminal benefits and also settling traffic imbalances with foreign administrations relating to OCS period. The Government of India Account in the books of VSNL is being operated for debiting and crediting these transactions/entries. Confirmation is still awaited from the Government of India for these adjustments. The matter is being pursued with the Government of India.

(b) Note No. 3(a) regarding, inter branch adjustments and investments in communication satellites being subject to reconciliation/adjustments, if any.

Reply: (i) In inter branch accounts, transactions pertaining to the current year are fully reconciled. However, the unreconciled amount pertaining to earlier years have been freezed at a particular date and the same is being carried forward.

(ii) OCS/VSNL has been contributing towards capital of Intelsat as a signatory to Intelsat for the last 35 years. Due to non-availability of complete information for all these years the Investment in Communication Satellites remains unreconciled.

(c) Note No. 3(b) regarding balances in respect of sundry debtors and sundry creditors including traffic creditors being subject to confirmations/adjustments, if any.

Reply: Monthly accounts rendered/ received by the company are accepted by the counterpart as per the norms under CCIT. Therefore, the management is of the view that separate confirmation of the balances may not be required. However, the Company is in the process of obtaining confirmations for major outstandings.

Report of Independent Accountants

To the Board of Directors
VIDESH SANCHAR NIGAM LIMITED:

We have audited the accompanying balance sheets of Videsh Sanchar Nigam Limited (the "Company") as of March 31, 2000 and 2001, and the related statements of income, cash flows and shareholders' equity for each of the three years in the period ended March 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Videsh Sanchar Nigam Limited as of March 31, 2000 and 2001, and the results of its operations and cash flows for each of the three years in the period ended March 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2(a) to the financial statements, these financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which differ in certain material respects from accounting principles generally accepted in India, which form the basis of the Company's general purpose financial statements.

Mumbai, India
September 24, 2001

M/s. Deloitte Haskins & Sells

Balance Sheets

March 31, 2000, and 2001

	As of March 31,		
	2000	2001	2001
	(In millions, except par value and number of shares)		
Assets			
Cash and cash equivalents	Rs.20,846	Rs.2,200	US$47
Short term investments	8,778	46,050	983
Trade and other receivables, net of allowances of Rs.1,021 million and Rs.979 million (US$21 million), respectively	25,651	19,745	421
Investments	3,657	4,247	91
Property, plant and equipment	15,920	18,077	386
Capital work-in-progress	1,982	2,328	50
Other assets	6,377	7,778	166
Total assets	Rs.83,211	Rs.100,425	US$2,144
Liabilities And Shareholders' Equity			
Liabilities			
Trade payables	Rs.13,535	Rs.11,309	US$242
Accrued expenses and other liabilities	6,365	10,731	229
Total liabilities	19,900	22,040	471
Commitments and contingencies (See Notes 1b, 1c and 20)	-	-	-
Shareholders' equity			
Equity shares: par value – Rs. 10 each; authorized: 100,000,000 shares and 300,000,000 shares at March 31, 2000 and 2001, respectively; issued and outstanding: 95,000,000 shares and 285,000,000 shares at March 31, 2000 and 2001, respectively (See Note 13)	950	2,850	61
Additional paid in capital	14,481	14,481	309
Retained earnings	47,880	60,642	1,294
Accumulated comprehensive income	-	412	9
Total shareholders' equity	63,311	78,385	1,673
Total liabilities and shareholders' equity	Rs.83,211	Rs.100,425	US$2,144

See accompanying notes to financial statements

Income Statements

for the years ended March 31, 1999, 2000 and 2001

	1999	2000	2001	2001
	(In millions, except share and per share amounts)			
Operating revenue				
Traffic revenues	Rs.67,181	Rs.69,640	Rs.71,916	US$1,535
Income from satellite consortia	757	737	1,160	25
Total operating revenue	67,938	70,377	73,076	1,560
Cost of Revenue				
Network and transmission costs	45,139	45,621	45,150	964
License fee paid to DoT	4,157	4,712	5,022	107
Total cost of revenue	49,296	50,333	50,172	1,071
Gross Margin	18,642	20,044	22,904	489
Other operating costs				
Depreciation and amortization	1,266	1,534	1,729	37
Other operating costs	1,628	2,622	3,023	65
Total other operating costs	2,894	4,156	4,752	102
Operating profit	15,748	15,888	18,152	387
Other income (expense), net				
Non-operating income	3,314	1,821	3,058	65
Interest income	1,387	1,683	3,964	85
Interest cost	(1)	(7)	(1)	-
Permanent impairment in the value of investment	(5,416)	(54)	-	-
Share of loss of affiliate	(30)	-	-	-
Total other income (expense), net	(746)	3,443	7,021	150
Income before income tax	15,002	19,331	25,173	537
Income-tax expense	(6,298)	(6,156)	(9,646)	(206)
Dividend tax	(38)	(84)	(105)	(2)
Net income	Rs.8,666	Rs.13,091	Rs.15,422	US$329
Per share information				
Earnings per equity share – basic and diluted	Rs.30.41	Rs.45.93	Rs.54.11	US$1.15
Weighted number of equity shares outstanding	285,000,000	285,000,000	285,000,000	285,000,000
Earnings per ADS – basic and diluted (where each ADS represents two equity shares)	Rs.60.82	Rs.91.86	Rs.108.22	US$2.30

See accompanying notes to financial statements

Statements of Cash Flows

for the years ended March 31, 1999, 2000 and 2001

	1999	2000 (In Millions)	2001	2001 (In Millions)
Cash flows from operating activities				
Net income	Rs.8,666	Rs.13,091	Rs.15,422	US$329
Adjustment to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	1,266	1,534	1,729	37
Share of loss of affiliates	30	-	-	-
Permanent impairment in the value of investment	5,416	54	-	-
Allowance for impairment of property, plant and equipment	-	356	-	-
(Profit)/loss on sale of fixed assets	-	(81)	5	-
Deferred tax charge/(benefit)	404	(219)	1,759	38
Unrealized exchange loss	(1,637)	(1,009)	(526)	(11)
Net change in				
Trade and other receivables	(3,521)	(4,694)	5,977	127
Other assets	(2,157)	(2,742)	(1,400)	(30)
Trade payables	(1,752)	1,331	(2,225)	(47)
Accrued expenses and other liabilities	(36)	326	2,380	50
Net cash provided by operating activities	6,679	7,947	23,121	493
Cash flows from investing activities				
Purchase of property, plant and equipment	(2,615)	(956)	(2,957)	(63)
Expenditure on capital work-in-progress	(1,735)	(2,665)	(1,281)	(27)
(Increase)/decrease in investments	(2,308)	(871)	92	2
(Increase)/decrease in short-term investments, net	57	494	(37,272)	(796)
Sale of property, plant and equipment	-	100	2	-
Net cash used by investing activities	(6,601)	(3,898)	(41,416)	(884)
Cash flows from financing activities				
Dividends paid	(380)	(760)	(760)	(16)
Bank overdraft	(1,536)	20	(46)	(1)
Net cash used by financing activities	(1,916)	(740)	(806)	(17)
Unrealized exchange gain on cash and cash equivalents	1,560	879	455	10
Net change in cash flows	(278)	4,188	(18,646)	(398)
Cash and cash equivalents, beginning of year	Rs.16,936	Rs.16,658	Rs.20,846	US$445
Cash and cash equivalents, end of year	Rs.16,658	Rs.20,846	Rs.2,200	US$47
Supplementary cash flow information				
Interest paid	Re. 1	Rs.7	Re.1	US$-
Income taxes paid	Rs.(7,564)	Rs. (9,316)	Rs.(9,597)	US$(205)

See accompanying notes to financial statements

Statement of Changes in Equity

for the years ended march 31, 1999, 2000 and 2001

	Number of equity shares (See Note 13)	Equity share capital	Additional paid in capital	Retained earnings	Accumulated comprehensive income	Total share shreholders equity	Compreh-ensive income
Balance at April 1, 1998	95,000,000	Rs.950	Rs.14,481	Rs.27,263	Rs.-	Rs.42,694	Rs.-
Net income				8,666		8,666	8,666
Dividends				(380)		(380)	
Comprehensive income							
Balance at March 31, 1999	95,000,000	950	14,481	35,549	-	50,980	
Net income				13,091		13,091	13,091
Dividends				(760)		(760)	
Comprehensive income							13,091
Balance at March 31, 2000	95,000,000	950	14,481	47,880	-	63,311	
Issue of stock dividends	190,000,000	1,900		(1,900)		-	
Net income				15,422		15,422	15,422
Dividends				(760)		(760)	
Unrealized gain on available for sale securities, net				-	412	412	412
Comprehensive income							Rs.15,834
Comprehensive income							US$338
Balance at March 31, 2001	285,000,000	Rs.2,850	Rs.14,481	Rs.60,642	Rs.412	Rs.78,385	
Balance at March 31, 2001	285,000,000	US$61	US$309	US$1,294	US$9	US$1,673	

See accompanying notes to financial statements

Notes to the Financial Statements

1. Background

a. The Company

Videsh Sanchar Nigam Limited ("VSNL" or the "Company") is incorporated in India as a limited liability company under the Indian Companies Act, 1956, with its registered office at Videsh Sanchar Bhavan, M.G.Road, Mumbai 400001, India. The Company is listed on major stock exchanges in India and on the New York Stock Exchange. The Government of India currently holds approximately 52.97% of the Company's equity share capital. The Company is the exclusive provider of international telecommunications services in India, directly and indirectly linking the domestic Indian telecommunications network to 237 territories worldwide. VSNL operates from its corporate office at Mumbai and through its branches at Mumbai, Pune, Arvi, Gandhinagar, New Delhi, Dehradun, Jalandhar, Kanpur, Kolkata, Chennai, Bangalore, Ernakulam and Hyderabad.

VSNL offers basic and specialized services. Basic services include telephony, telex and telegraph. Specialized services include gateway packet data transmission, electronic data interchange, e-mail, Internet, international maritime satellite mobile services, leased channels, transmission of signals for international television broadcasts and video conferencing.

b. Monopoly status

In September 2000, the Government of India (the "Government") announced its intention to allow private players to provide international telephone services from April 1, 2002, thus terminating VSNL's monopoly two years ahead of schedule. The Government plans to compensate the Company for this early termination with the following package:

1. A license to operate domestic long distance ("DLD") service.

2. Re-imbursement by the Government for all license fees, entry fees and revenue sharing fees, net of taxes, that the Company may have to pay with respect to the DLD license, for five years with effect from April 2001.

3. Exemption from the performance bank guarantee of Rs.4 billion with respect to the DLD license.

4. A category 'A' Internet Service Provider ("ISP") license, which will allow the Company to expand internet access services to the entire country.

5. The Government may also consider additional compensation, if necessary, after a detailed review is undertaken.

The Company has accepted the Government's decision to terminate the Company's monopoly before the year 2004. The shareholders of the Company have approved the compensation package at the meeting held in May 2001.

c. Disinvestment

The Government currently holds a majority stake of 52.97% in the Company's equity. The Government has announced its decision to divest a 25% stake to a strategic partner, along with the right to management and simultaneously disinvest 1.97% to the Company's employees. If the Government achieves successful divestment, certain procedures that are currently mandatory for public sector companies will no longer be applicable to the company. The disinvestment process commenced in January 2001. There can be no assurance that a strategic buyer will be found or that negotiations will result in a sale.

d. Revenue sharing arrangement

The Company operates its business pursuant to a license from Department of Telecommunications ("DoT"), Government of India. In pursuance of the New Telecom Policy 1999, the Government decided to corporatise the service provision functions of the DoT. Accordingly, the Government transferred the business of providing telecom services in the country to the newly formed company, Bharat Sanchar Nigam Limited ("BSNL") with effect from October 1, 2000. Further, the existing contracts, agreements and MoU's including the revenue sharing agreement entered into by DoT for the supply of services were transferred and assigned to BSNL with effect from October 1, 2000.

The license is periodically renewed by the DoT subject to certain conditions and is currently valid up to March 31, 2004. Under the current arrangements, although the Company provides international gateway access out of and into India, all calls must either initiate or terminate on or pass through the DoT's network. The Company derives substantially all its revenue from payments from foreign telecommunication administrations and private carriers for the delivery of international calls to India and from payments from DoT for the delivery of international calls abroad. Consequently, the Company and DoT share revenues received by each entity from international calls pursuant to a revenue sharing arrangement between them. The arrangement is effective from April 1, 1997 and is valid until March 31, 2002.

Under the revenue sharing arrangement, the Company pays to DoT, a charge per minute equal to the weighted average incoming settlement rate, minus Rs. 10.00 on all incoming international calls and DoT pays to the Company, a charge per minute equal to the weighted average outgoing settlement rate plus Rs.10.00 on all outgoing international calls. The weighted average incoming settlement rate and weighted average outgoing settlement rate for any financial year is the average of the various settlement rates in effect as of the beginning of the financial year between the Company and the foreign administrations and carriers (converted to Indian rupees at the exchange rate prevailing as of the beginning of the

financial year), weighted to reflect the volume of total incoming traffic and the outgoing traffic respectively, of the immediately preceding financial year.

The above arrangement was intended to result in an average gross profit to VSNL of approximately Rs.10.00 per call minute for each of the financial years ended March 31, 1998 and March 31, 1999. This was based on the assumption that applicable settlement rates, exchange rates and the composition of the incoming and outgoing traffic from and to particular destinations remain constant during the year. Any fluctuation in these variables, either to the benefit or detriment of VSNL, was borne by VSNL.

With effect from April 1, 1999, the revenue sharing arrangement provides for a comparison of the combined international traffic revenue per call minute of the Company and DoT (net of payments by the Company to foreign administrations and carriers and by the Company and DoT to each other in respect of incoming and outgoing calls) for each fiscal year, compared to the corresponding amount in the base fiscal year ended March 31, 1997. Increases or decreases are shared between the Company and DoT according to the following percentages:

Year ended March 31	Company's share of increase/ decrease	DoT's share of increase/ decrease/
2000	15%	85%
2001	20%	80%
2002	25%	75%

In computing the international traffic revenue of DoT for purposes of calculating the combined international traffic revenue per call minute of the Company and DoT, the tariff charged by DoT to subscribers for outgoing international calls is assumed to remain constant at Rs.62.35 per minute, which was the weighted average tariff rate for the year ended March 31, 1997. It is therefore intended that the Company's average gross profit per call minute under the current revenue sharing arrangement will not be affected directly by any decrease or increase in the actual tariffs charged by DoT from its subscribers for outgoing international calls.

The current revenue sharing arrangement is subject to review in the event that the exchange rate fluctuates more than 10 per cent from the rate at the beginning of the year or the Company's actual average gross earnings per call minute is less than Rs.9.00 or more than Rs.11.00 in any financial year covered by the arrangement. The objective of the review would be to renegotiate terms that correct the imbalance.

For the years ended March 31, 1999, 2000 and 2001 the gross profit per call minute was Rs.10.63, Rs.9.43 and Rs.9.39, respectively.

2. Summary of Significant Accounting Policies

a. Basis of presentation and consolidation

The Company does not have any subsidiaries. Entities where the Company controls between 20% to 50% of the voting stock of the investee company are considered affiliates and are accounted for using the equity method.

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). US GAAP differs in certain material respects from accounting principles generally accepted in India and the requirements of India's Companies Act, 1956, which form the basis of the statutory general purpose financial statements of the Company in India. Principal differences insofar as they relate to the Company include valuation of investments, accounting for property, plant and equipment and depreciation thereon, deferred income taxes, retirement benefits, investment in affiliates and the presentation and format of the financial statements and related notes.

b. Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of these financial statements and the reported amounts of revenues and expenses for the years presented. Actual results could differ from these estimates. Material estimates included in these financial statements that are susceptible to change include traffic revenue, allowances for trade and other receivables and valuation of unlisted investments.

c. Cash and cash equivalents

The Company considers all highly liquid financial instruments, which are readily convertible into cash and have original maturities of three months or less on the date of purchase, to be cash equivalents. The carrying value of cash equivalents approximates fair value.

d. Trade and other receivables

Trade and other receivables are stated at their expected realizable values, net of provisions for bad and doubtful amounts. Amounts payable to, and receivable from, the same administration and the DoT are shown on a net basis, where a legal right of set-off exists. These payables and receivables are intended to be settled on a net basis.

e. Investments

The Company accounts for its investments in securities of telecommunication satellite companies for which readily determinable fair values are available in accordance with Statement of Financial Accounting Standards ("SFAS") No. 115*, Accounting for Certain Investments in Debt and Equity Securities.* SFAS No.115 requires that investments that are not classified as held to maturity or trading are classified as available for sale and recorded at fair value. Unrealized gains and losses on such securities, net of applicable taxes, are reported in other comprehensive income, a separate component of shareholders' equity.

Investments in telecommunication satellite corporations which are not freely transferable and for which fair values are not readily obtainable are accounted for in accordance with *APB Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock*. These investments are reflected at cost less permanent impairment, if any.
Declines in the value of investments that are other than temporary are reflected in earnings as realized losses, based on management's best estimate of the value of the investment.

f. Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation. All costs relating to the acquisition and installation of property, plant and equipment are capitalized.

Depreciation is charged on property, plant and equipment on a straight-line basis from the time they are available for use, so as to make an economic allocation of the cost at which the assets are acquired less their estimated residual values, over their remaining estimated economic lives. Depreciation on freehold land is not provided. The estimated useful lives of various assets are shown below:

	Years
Buildings	61
Plant and machinery:	
Earth stations	12
Cables	10 – 25
Exchanges	12
Other network equipment	8
Office equipment	20
Computers	6
Furniture, fittings and vehicles	10-15

Land acquired on lease is amortized over the period of the lease.

Assets gifted by unrelated parties have been accounted for in accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made* at fair value and recognized as revenue and an asset in the period received. Such assets are depreciated over their remaining useful economic lives.

Property, plant and equipment includes intangible assets in the nature of indefeasible rights of use for international telecommunication circuits in submarine cables, which the Company acquires from time to time. These rights extend over specific time periods. The amounts paid according to the terms of these transactions are recorded as additions to property, plant and equipment, respectively, and amortized over the contracted period of use.

g. Impairment of long lived assets

The Company evaluates the carrying value of its property and equipment whenever events or circumstances indicate the carrying value of assets may exceed their recoverable amounts. An impairment loss is recognized when the estimated future cash flows (undiscounted and without interest) expected to result from the use of an asset are less than the carrying amount of the asset. Measurement of an impairment loss is based on fair value of the asset computed using discounted cash flows as if the asset is expected to be held and used. Measurement of an impairment loss for an asset held for sale would be based on fair market value less estimated costs to sell.

h. Operating leases

Costs in respect of operating leases are expensed on a straight-line basis over the lease term.

i. Retirement benefits

Gratuity

In accordance with Indian law, the Company provides for gratuity, a defined benefit retirement plan covering all employees. The plan provides for lump sum payments to vested employees at retirement, death while in employment or on termination of employment in an amount equivalent to 15 days salary payable for each completed year of service or part thereof in excess of six months subject to a maximum of Rs.350,000. Vesting occurs upon completion of five years of service. The Company makes annual contributions to a fund administered by trustees, based on an external actuarial valuation carried out annually. The Company accounts for its liability for future gratuity benefits in accordance with SFAS No. 87, *Employers' Accounting for Pensions*.

Leave encashment

Leave encashment benefits comprise of encashment of vacation entitlement carried forward by employees. These balances are encashable during the tenure of employment, on the employee leaving the Company or on retirement. The Company makes a provision towards leave encashment liability based on the total unavailed leave credited to each employee's account and his respective salary as at the end of each reporting date.

Provident fund

In addition to the above benefits, all employees receive benefits from a provident fund, a defined contribution plan. The employee and employer each make monthly contributions to the plan equal to 12% of the employee's salary (basic and dearness allowance). The contributions are made to the provident fund trust established by the Company. The Company is obligated to make good any shortfall in the statutorily assured rate of return on the assets of the trust, which was 11% and 9.5% as of March 31, 2000 and 2001, respectively. Currently, the Company has no further obligation under the provided fund beyond its contribution, which is expensed when incurred.

j. Revenue recognition

Revenues for long distance telephone services are recognized at the end of each month based upon minutes of incoming or outgoing traffic completed in such month. Revenues from leased circuits are recognized based upon contracted fee schedules. Revenues from Internet services are recognized based on usage by subscribers. The majority of revenues are derived from payments by the DoT for completing outgoing calls made from India and from payments by foreign administrations for incoming calls that originate outside India.

Income from the Company's investments in International Telecommunications Satellite Organisation ("Intelsat"), which represent the surplus earned by Intelsat during the year, is accrued on the basis of the statements received and is included as part of non-operating income. The charges paid to Intelsat for the use of satellites is included in network and transmission costs.

k. Operating costs

The principal components of the Company's operating costs are network and transmission costs, license fees paid to the DoT and other operating costs.

Network and transmission costs include payments to DoT for incoming traffic and to foreign administrations and carriers for outgoing traffic, as well as the cost of leasing transmission facilities, including lines from DoT and satellite circuits from Intelsat and International Mobile Satellite Organisation ("Inmarsat"). As discussed in note 1(b), the Company must pay a proportion of the amounts received from the DoT to transit and destination foreign administrations. Similarly, a proportion of the payments from the foreign administrations is paid to DoT for completing calls within India.

Under the current revenue sharing agreement with DoT, the Company pays to DoT a license fee of Rs.0.25 million per annum on average circuits commissioned.

Other operating costs include general and administrative expenses other than network and transmission costs and license fees

i. Foreign currency transactions

The Company's functional currency is the Indian rupee. Foreign currency transactions are recorded at the exchange rate prevailing on the date of the transaction. Foreign currency denominated monetary assets and liabilities are converted into Indian rupees using exchange rates prevailing on the balance sheet dates. Gains and losses arising on conversion of foreign currency denominated monetary assets and liabilities and on settlement of foreign currency transactions are included in the determination of net income.

m. Income tax

Income tax comprises the current tax provision and the net change in the deferred tax asset or liability in the year. Temporary differences are identified and the provision is made using the asset and liability method for all such differences. Deferred tax benefits are recognized on assets to the extent that it is more likely than not that future taxable profits will be available against which the asset can be utilized. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to be received or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the income statement in the period of enactment of the change.

n. Dividends

Any dividends declared by the Company are based on the profit available for distribution as reported in the statutory financial statements of the Company prepared in accordance with Indian GAAP. Accordingly, in certain years, the net income reported in these financial statements may not be fully distributable. As of March 31, 2000 and 2001, the amounts available for distribution are Rs.1,002 million and Rs.16,147 million,

respectively. Dividends for the years ended March 31, 1999, 2000 and 2001 were Rs.8, Rs.8 and Rs.50 per equity share, respectively. The Company paid dividends of Rs.380 million, Rs.760 million and Rs.760 million during the years ended March 31, 1999, 2000 and 2001, respectively.

o. Earnings per share

The Company reports basic and diluted earnings per equity share in accordance with SFAS No. 123, *Earnings Per Share*. Basic earnings per equity share has been computed by dividing net income by the weighted average number of equity shares outstanding for the period. For the purposes of earnings per share, stock dividends declared by the Company have been given retroactive effect for all the years presented.

p. Comprehensive Income

The Company reports comprehensive income in accordance with SFAS No.130, *Reporting Comprehensive Income*. Accounting principles generally require that recognized revenues, expenses, gains and losses be included in net income. Unrealized gains and losses on available for sale securities along with net income are components of comprehensive income.

q. Segment information

The Company identifies basic telephony, Internet and leased line services as its operating segments. Segment-wise information has been provided in Note 22.

r. New accounting pronouncements

SFAS No. 141

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141, *Business Combinations*. The provisions of this Statement apply to all business combinations initiated after June 30, 2001. This Statement also applies to all business combinations accounted for using the purchase method for which the date of acquisition is July 1, 2001 or later. This Statement addresses financial accounting and reporting for business combinations and supersedes APB Opinion No. 16, *Business Combinations,* and SFAS No. 38, *Accounting for Preacquisition Contingencies of Purchased Enterprises*. All business combinations in the scope of this Statement are to be accounted for using the purchase method only. This Statement is not applicable as the Company has not initiated any business combinations.

SFAS No. 142

In June 2001, the FASB issued SFAS No. 142, *Goodwill and Other Intangible Assets.* The provisions of this Statement are required to be applied starting with fiscal years beginning after December 15, 2001. This Statement addresses financial accounting and reporting for acquired goodwill and other intangible assets and supersedes APB Opinion No. 17, *Intangible Assets.* It addresses how intangible assets that are acquired individually or with a group of other assets (but not those acquired in a business combination) should be accounted for in financial statements upon their acquisition. This Statement also addresses how goodwill and other intangible assets should be accounted for after they have been initially recognized in the financial statements. The Statement states that goodwill and intangible assets that have indefinite useful lives will not be amortized but rather will be tested at least annually for impairment. Intangible assets that have finite useful lives will continue to be amortized over their useful lives, but without the constraint of an arbitrary ceiling. The Company does not have goodwill and intangible assets with indefinite useful lives. Intangible assets that have finite useful lives are already being amortized over their useful lives. Hence, the Company's current amortization policy complies with SFAS No. 142.

SFAS No. 143

In June 2001, the FASB issued SFAS No. 143, *Accounting for Asset Retirement Obligations*. This statement is effective for financial statements issued for fiscal years beginning after June 15, 2002. This Statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs and applies to all entities. It applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and (or) the normal operation of a long-lived asset, except for certain obligations of lessees. The Company does not have material asset retirement obligations.

s. Convenience Translation

The accompanying financial statements have been expressed in Indian rupees ("Rs."), the Company's functional currency. For the convenience of the reader, the financial statements as at and for the year ended March 31, 2001 have been translated into US dollars at US$1.00 = Rs.46.85 based on the noon buying rate for cable transfers on March 30, 2001 as certified for customs purposes by the Federal Reserve Bank of New York. Such convenience translation should not be construed as a representation that the Indian rupee amounts referred to in these financial statements have been, or could be converted into US dollars at this or at any other rate of exchange, or at all.

3. Cash and cash equivalents

	As of March 31,		
	2000	2001	2001
	(In millions)		
Cash and cash equivalents include the following			
Cash in hand	Rs.1	Rs.15	US$-
Bank balances			
Current accounts	19,449	485	10
Time deposits	1,396	1,700	37
Total	Rs.20,846	Rs.2,200	US$47

Time deposits are interest-bearing deposits with original maturities ranging from 15 days to 90 days. Interest rates on such time deposits during the year ended March 31, 2001, ranged from approximately 6.10% to 6.98% on foreign currency deposits and 7.00% to 11.25% on Indian rupee deposits.

4. Short-term investment

	As of March 31,		
	2000	2001	2001
	(In millions)		
Short-term investments include the following:			
Restricted cash balances	Rs.6,658	Rs.7,730	US$165
Time deposits with maturity exceeding 90 days	2,120	38,320	818
Total	Rs.8,778	Rs.46,050	US$983

Restricted cash balances comprise of time deposits, the use of which is restricted to the import of capital equipment.

5. Trade and other receivables

	As of March 31,		
	2000	2001	2001
	(In millions)		
Trade and other receivables include the following			
Trade accounts receivables:			
Amount due from foreign administrations	Rs.24,564	Rs.17,347	US$370
Domestic trade debtors	527	792	17
Interest receivable on bank deposits	134	1,231	26
Other sundry deposits	49	56	1
Other receivables	377	319	7
Total	Rs.25,651	Rs.19,745	US$421

Trade accounts receivables are net of an allowance for doubtful debts of Rs.1,021 million and Rs.979 million for the years ended March 31, 2000 and 2001, respectively.

Amounts due from DoT for traffic settlement are netted against amounts due to DoT for traffic settlement and are reported in trade payables. The Company has legal right of setoff.

6. Investments

The portfolio of investments as of March 31, 2000 and 2001 is as follows:

	As of March 31, 2000			As of March 31, 2000		
	Amortized Cost	Gross unrealized gains (In millions)	Carrying value	Amortized Cost	Gross unrealized gains (In millions)	Carrying value
Investment carried at fair value:						
Satellite companies	Rs.-	Rs.-	Rs.-	Rs.562	Rs.681	Rs.1,243
Investment carried at cost:						
Satellite companies			9,127			8,474
Less: Permanent impairment			(5,470)			(5,470)
Total			Rs.3,657			Rs.4,247
Total						US$91

Intelsat

Intelsat is an Inter Government Organisation ("IGO") formed in 1964 that owns and operates satellite communication systems. It offers Internet, broadcast, telephony and corporate network solutions to customers in over 200 countries through its network of 20 geostationary satellites. It currently has 10 new next-generation satellites under construction.

The Company's ownership share in this organization is adjusted quarterly to conform to the respective percentage of total use of the system or another percentage based on the terms of the agreement. Accordingly, on the basis of share re-determinations, as of March 1999, 2000 and 2001, the Company's investment was at 4.3%, 5.2% and 5.4%, respectively, of the total shareholding of Intelsat.

Net capital contributions are billed by Intelsat to the Company from time to time in proportion to the ownership share determined. The total of such net capital contributions are disclosed as investments in communication satellites under investments.

In November 2000, Intelsat's member nations formally decided to privatise it to increase flexibility.

New Skies Satellite NV ("NSS")

During 1998-99, Intelsat as part of its restructuring process incorporated NSS as a corporation with limited liability under the laws of Netherlands and transferred certain assets and liabilities to NSS accounted for at historic book values. In return, NSS issued 10,000,000 shares of common stock of Dutch Guilder 1 to Intelsat. Intelsat distributed 9,000,000 shares of NSS in the year 1998-99, and 1,000,000 shares of NSS in 1999-2000 in proportion to the investment shares of its members at the time of distribution. Consequently, the Company acquired 301,215 shares in 1998-99 and 43,000 shares in 1999-2000, shares which were recorded as a reduction in the investment in Intelsat and a new investment in NSS at face values.

NSS announced a 10:1 stock split prior to its initial public offering ("IPO") in October 2000 and redesignated its shares from Guilders to Euros. Thus, the Company's total holding in NSS as of March 31, 2001 stands at 3,442,150 ordinary shares of 0.05 Euros each. The market value per share as of March 30, 2001 was US$7.75 per share.

International Mobile Satellite Organisation ("Inmarsat")

Inmarsat was an intergovernmental organization with membership from 88 countries providing satellite mobile communications in air, on land and at sea. Inmarsat was converted into a national law company incorporated in the United Kingdom effective April 15, 1999. The Company's investment in the holding company, Inmarsat Ventures Plc is 202,219 shares representing 2.0% of the paid up capital. Further, there had been a 10:1 stock split in March 2001. Consequently, the Company now holds 2,022,190 shares of 10 pence each in Inmarsat Ventures Plc.

ICO Global Communications Holdings Ltd. ("ICO")

ICO, a company registered in Bermuda, was incorporated in January 1995 to provide global mobile personal communication services. ICO was listed on the NASDAQ in July 1998. The Company has invested a sum of Rs.5,471 million (US$150 million) in ICO.

ICO filed a voluntary petition for re-organization under Chapter 11 of the United States Bankruptcy Code on August 27, 1999 in the United States Bankruptcy Court in the district of Delaware as the additional financial resources required to complete the system and begin commercial operations could not be raised as per schedule.

In May 2000, the court confirmed the plans of re-organization of ICO, which became effective on May 17, 2000. By virtue of the re-organization, the Company received 180,053 shares of class A common stock of US$ 0.01, amounting to Rs.0.06 million and 975,398 warrants, with an option to purchase shares of class A common stock exercisable in New ICO by May 15, 2006. The Company recognized a charge of Rs.5,416 million and Rs.54 million as permanent impairments in the years ended March 31, 1999 and 2000, respectively.

Telstra Vishesh Communications Limited ("TVCL")

TVCL is a joint venture between the Company, Telstra-Australia and Infrastructure Leasing & Financial Services Ltd. , with an investment equity in the ratio of 40:40:20. Currently, the Company holds Rs.92 million out of the total paid up capital of Rs.314 million. TVCL has invested in a hybrid VSAT project and has diversified into consulting, facility management services and turnkey VSAT projects for large organizations. The shares of TVCL are recorded at face value and consequently the Company has applied the provision for diminution in value of investments and written off these investments to their current face value in the previous year.

7. Property, plant and equipment

Property, plant and equipment by asset category is as follows:

	As of March 31,		
	2000	2001 (In millions)	2001
Land	Rs.143	Rs.754	US$16
Buildings	1,780	2,062	44
Plant and machinery	20,658	23,349	499
Computers	431	574	12
Motor vehicles	14	16	-
Furniture and fixtures	339	366	8
Property, plant and equipment, at cost	23,365	27,121	579
Less: Accumulated depreciation	(7,445)	(9,044)	(193)
Property, plant and equipment, net	Rs.15,920	Rs.18,077	US$386

Depreciation expense for the years ended March 31, 1999, 2000 and 2001 was Rs.1,266 million, Rs.1,534 million and Rs.1,729 million, respectively.

During the year 1998-99 the Company had spent Rs.496 million towards gateway equipment for Iridium India Telecom Limited ("IITL"), Pune, which was capitalized and was being depreciated. IITL stopped operational activities in April 2000 and since then these assets have not been used by IITL. An allowance for impairment has been made of Rs.356 million in the year ended March 31, 2000 to reflect their estimated realizable value.

Property, plant and equipment includes assets held for disposal of Rs.1 million as of March 31, 2000 and 2001, respectively, which represents their estimated realizable value.

Property, plant and equipment include Rs.851million and Rs.1,672 million for indefeasible rights of use as of March 31, 2000 and 2001, respectively.

8. Capital work-in-progress

Capital work-in-progress includes the following:

	As of March 31,		
	2000	2001 (In millions)	2001
Buildings	Rs.313	Rs.382	US$8
Plant and machinery	1,173	1,912	41
Other assets	496	34	1
Total	Rs.1,982	Rs.2,328	US$50

9. Other assets

Other assets includes the following:

	As of March 31,		
	2000	2001 (In millions)	2001
Advance tax (net)	Rs.5,858	Rs.7,463	US$160
Advance paid for capital goods	348	63	1
Prepaid expenses	140	235	5
Inventories	31	17	-
Total	Rs.6,377	Rs.7,778	US$166

10. Trade payables

Trade payables include the following:

	As of March 31, 2000	2001 (In millions)	2001
Accounts payable-trade: Amounts due to foreign administrations	Rs.1,151	Rs.2,585	US$56
Amounts due to DoT net of amounts due from DoT for traffic settlement	12,384	8,724	186
Total	Rs.13,535	Rs.11,309	US$242

11. Accrued expenses and other liabilities

Accrued expenses and other liabilities include the following:

	As of March 31, 2000	2001 (In millions)	2001
Bank overdraft	Rs.46	Rs.-	US$-
Unearned income	1,605	2,235	48
Deferred taxation	1,155	3,183	68
Other payables and accrued expenses	3,559	5,313	113
Total	Rs.6,365	Rs.10,731	US$229

Bank overdraft of Rs. 46 million and Rs.Nil million as of March 31, 2000 and 2001, respectively, represent book overdrafts.

12. Income taxes

The income tax expense comprises the following:

	Years ended March 31, 1999	2000 (In millions)	2001	2001
Current income tax expense	Rs.5,894	Rs.6,375	Rs.7,887	US$168
Deferred income tax expense (benefit)	404	(219)	1,759	38
Income tax expense	Rs.6,298	Rs.6,156	Rs.9,646	US$206

The following is the reconciliation of estimated income taxes at the Indian statutory income tax rate to income tax expense as reported:

	Years ended March 31, 1999	2000 (In millions)	2001	2001
Net income before taxes	Rs.15,002	Rs.19,331	Rs.25,173	US$537
Effective statutory income tax rate	35.00%	38.50%	39.55%	39.55%
Expected income tax expense	5,251	7,442	9,956	212
Adjustments to reconcile expected income tax to actual tax expense:				
Permanent differences:				
Income exempt under tax holiday	(708)	(899)	(1,209)	(26)
Provision for diminution in value of investment not allowed for tax	1,896	21	153	3
Exchange gain on GDR deposits treated as capital receipt for income tax purposes	(248)	(94)	(60)	(1)
Other, net	107	(451)	775	17
Effect of change in statutory tax rate	-	137	31	1
Income tax expense	Rs.6,298	Rs.6,156	Rs.9,646	US$206

The tax effects of significant temporary differences are as follows:

	2000	As of March 31, 2001 (In millions)	2001
Tax Effect of			
Deductible temporary differences:			
Allowances for trade receivables	Rs.482	Rs.387	US$8
Other	511	-	-
Deferred tax asset	Rs.993	Rs. 387	US$8
Taxable temporary differences			
Property, plant and equipment	Rs.2,148	Rs. 3,204	US$68
Investment income deferred for tax	-	269	6
Other	-	97	2
Deferred tax liability	Rs.2,148	Rs.3,570	US$76
Net deferred tax liability	Rs.1,155	Rs.3,183	US$68

13. Shareholders' equity

On September 26, 2000, the shareholders of the Company approved a stock dividend of equity shares in the ratio of two equity shares for every one equity share held, which was distributed on November 24, 2000 to shareholders on record as of November 16, 2001. In accordance with ARB No. 43, the Company has capitalized the legally required face value of the equity shares issued.

During the year ended March 31, 2001, the authorized share capital of the Company was increased from 100 million equity shares of Rs.10 each aggregating Rs.1,000 million to 300 million equity shares of Rs.10 each aggregating Rs.3,000 million.

14. Revenues

Revenues comprise the following:

	Years ended March 31, 1999	2000 (In millions)	2001	2001
Revenues from foreign administrations for incoming traffic:				
Telephone	Rs.43,834	Rs.45,161	Rs.46,674	US 996
Telex	186	128	112	2
Revenues from DoT for outgoing traffic:				
Telephone	18,243	18,375	18,345	392
Telex	173	175	112	2
Leased circuits	2,499	2,986	3,140	67
Telegraph, television and others	2,246	2,815	3,533	76
Total	Rs.67,181	Rs.69,640	Rs.71,916	US$1,535

15. Network and transmission costs

Network and transmission costs comprise the following:

	Years ended March 31, 1999	2000 (In millions)	2001	2001
Payment for traffic costs to				
DoT	Rs.27,682	Rs.29,254	Rs.27,341	US$584
Foreign administrations	14,762	13,374	13,866	296
Rent of land lines	915	579	1,037	22
Other transmission facilities	1,780	2,414	2,906	62
Total	Rs.45,139	Rs.45,621	Rs.45,150	US$964

16. Other operating costs

Other operating costs comprise the following:

	Years ended March 31, 1999	2000 (In millions)	2001	2001
Staff costs:				
Salaries and wages	Rs.680	Rs.866	Rs.1,400	US$30
Social security contributions	86	90	132	3
Energy costs	175	235	271	6
Advertising	102	113	116	2
Repairs, maintenance, marketing and other costs	585	1,318	1,104	24
Total	Rs.1,628	Rs.2,622	Rs.3,023	US$65

17. Non-operating income

Non-operating income comprises the following:

	Years ended March 31, 1999	2000 (In millions)	2001	2001
Foreign exchange gains, net	Rs.3,168	Rs.1,449	Rs.2,878	US$61
Profit (Loss) on sale of fixed assets	10	86	(5)	-
Miscellaneous income	136	286	185	4
Total	Rs.3,314	Rs.1,821	Rs.3,058	US$65

18. Retirement benefits

Gratuity

The following table sets out the funded status of the gratuity plan and the amounts recognized in the Company's financial statements as of March 31, 2000 and 2001.

	As of March 31, 2000	2001 (In millions)	2001
Change in benefit obligation:			
Projected benefit obligation, beginning of the year	Rs.151	Rs.153	US$4
Service cost	8	8	-
Interest cost	16	16	-
Actuarial loss/(gain)	(21)	65	1
Benefits paid	(1)	(10)	-
Projected benefit obligation, end of the year	153	232	5
Change in plan assets:			
Fair value of plan assets, beginning of the year	56	95	2
Actual return on plan assets	7	10	-
Employer contributions	33	32	1
Benefits paid	(1)	(10)	-
Fair value of plan assets, end of the year	95	127	3
Excess of obligation over plan assets	(58)	(105)	(2
Unrecognized actuarial loss	2	68	1
Unrecognized transitional obligation	18	13	-
Accrued benefit	Rs.(38)	Rs.(24)	US$(1)

Net gratuity cost for the years ended March 31, 1999, 2000 and 2001 comprises the following components:

	Years ended March 31,			
	1999	2000	2001	2001
	(In millions)			
Service cost:	Rs.7	Rs.8	Rs.8	US$-
Interest cost	11	16	16	-
Amortization of unrecognized transitional obligation	5	5	5	-
Actual investment return	(4)	(7)	(10)	-
Net gratuity cost	Rs.19	Rs.22	Rs.19	US$-

The assumptions used in accounting for the gratuity plan for the years ended March 31, 1999, 2000 and 2001 are set out below:

	Years ended March 31,		
	1999	2000	2001
	(%)		
Discount rate	10.5	10.5	10.5
Rate of increase in compensation levels of covered employees	6	6	6
Rate of return on plan assets	9.5	9.5	9.5

Leave encashment

The Company provided Rs.11 million, Rs.26 million and Rs.28 million for leave encashment for the years ended March 31, 1999, 2000 and 2001, respectively.

Provident fund

The Company contributed Rs.36 million, Rs.45 million and Rs.75 million to the provident fund for the years ended March 31, 1999, 2000 and 2001, respectively.

19. Estimated fair value of financial instruments

The carrying amounts for cash, cash equivalents, short-term investments, accounts receivable and accounts payable approximate their fair values due to the short maturity of these instruments.

20. Commitments and contingencies

Commitments and contingencies are as follows:

Capital commitments

Capital commitments represent expenditure, principally relating to the construction of new buildings, submarine cables and expansion of transmission equipment, which had been committed under contractual arrangements and unpaid amounts on investments, with the majority of payments due within a one year period. The amount of these commitments totalled Rs.2,887 million as of March 31, 2001.

Contingencies

Income tax matters

For the assessment years 1988-89, 1994-95 and 1996-97 to 1998-99, the income tax authorities have raised demands aggregating Rs.14,728 million, including interest of Rs. 6,343 million on the disallowance of license fee paid by the Company to DoT and other claims against which amounts aggregating to Rs.10,625 million have been paid or adjusted. The claim for license fee for assessment year 1995-96 has been allowed by the Income Tax Appellate Tribunal. The Company has been advised by counsel that the demands are not likely to be sustained and hence no provision is considered necessary.

Other contingencies

The Company is involved in lawsuits, claims, investigations and proceedings, which arise in the normal course of business. There are no such matters pending that the Company expects to be material in relation to the business.

21. Related party transactions

The Company's principal related parties consist of government departments, government owned or controlled companies and affiliates of the Company. The Company routinely enters into transactions with its related parties, such as providing telecommunication services, sharing costs and revenues and subletting premises. Transactions other than with the DoT are at arm's length in accordance with law. Transactions with the DoT are subject to the revenue sharing agreement discussed in Note 1d. The Company's significant related party balances and transactions with DoT are detailed in the Statement of Income and in Notes 5, 10, 14 and 15. Other related party transactions and balances are immaterial individually and in the aggregate.

22. Segment information

The Company has three operating segments, comprising telephony, Internet and leased line services. Operating segments other than the telephony segment do not meet the quantitative thresholds specified by SFAS No. 131*, Disclosures about Segments of an Enterprise and Related Information*, and do not qualify as reportable segments. Information about these segments has been aggregated and reported in the "All other" category.

The Company's chief operating decision maker utilizes revenue information in assessing performance and making overall operating decisions and resource allocation. Communication services are provided utilizing the Company's assets, which generally do not make a distinction between the types of services. As a result, the Company cannot, and does not, allocate expenses relating to assets or asset costs by segment.

Summarized segment information for the years ended March 31, 1999, 2000 and 2001 is as follows:

	Years ended March 31, (In millions)					
	2000		2001		2001	
	Basic telephony	**All Other**	**Basic telephony**	**All Other**	**Basic telephony**	**All Other**
Traffic revenue	Rs.62,077	Rs.5,104	Rs.63,535	Rs.6,105	Rs.65,019	Rs.6,897
Income from satellite consortia	-	757	-	737	-	1,160
Operating revenue	62,077	5,861	63,535	6,842	65,019	8,057
Network and transmission costs	42,976	2,163	43,004	2,617	41,861	3,289
License fee	4,157	-	4,712	-	5,022	-
Segment operating profit	14,944	3,698	15,819	4,225	18,136	4,768
Total Segment operating profit		18,642		20,044		22,904
Less: Unallocable operating costs		2,894		4,156		4,752
Operating profit, as reported		Rs.15,748		Rs.15,888		Rs.18,152

Unallocable operating costs include staff cost, energy cost, depreciation and other general administrative overheads, which are not allocable segment-wise.

Revenues from major customers are as follows:

	Years ended March 31, 1999	2000	2001	2001
	(In millions)			
DoT	Rs.18,416	Rs.18,550	Rs.18,346	US$392
USA-MCI	7,749	11,071	10,916	233
USA-ATT	7,572	5,157	9,639	206
UAE	6,921	6,589	7,222	153
UK-BTI	4,501	4,276	2,213	47
Saudi Arabia	4,179	3,179	4,185	89
US Sprint	1,216	1,794	1,384	30
UK MCL	1,119	928	717	15
Singapore	1,067	1,719	1,384	30
Canada	1,232	1,199	702	15
Total	Rs.53,972	Rs.54,462	Rs.56,708	US$1,210

Concentrations of credit risk exist when changes in economic, industry or geographic factors similarly affect groups of counter parties whose aggregate credit exposure is material in relation to the Company's total credit exposure.

The balances due from major customers are as follows:

	Years ended March 31, 1999	2000	2001
	(In millions)		
Customer Name			
USA-MCI	Rs.7,308	Rs.4,066	US$87
USA-ATT	1,616	2,585	55
UAE	4,197	2,419	51
UK-BTI	3,689	1,717	37
Saudi Arabia	1,534	2,057	44
Singapore	1,118	49	1
Total	Rs.19,462	Rs.12,893	US$275

All revenues earned by the Company are from its operations in India. Substantially all of the Company's fixed assets are located in India.

23. Subsequent events review

a. Conversion of Intelsat into a private company

Intelsat, the world's largest commercial satellite communications organisation, was privatised on July 18, 2001. The holding company is known as Intelsat Ltd., incorporated in Bermuda. After conversion, the Company holds 5.4% (27,045,940 shares of par value US$1 each) in Intelsat. The Company is represented on the Board of Directors of Intelsat Ltd.

b. Proposed Voluntary Retirement Scheme ("VRS")

On August 1, 2001, the Company announced a VRS with the primary objective of improving the average mix of its employees as also to improve the overall skill level. The scheme remains open from September 1, 2001 to September 30, 2001. Employees who are at least 50 years of age and have rendered a minimum of 10 years service in the Company are eligible to opt for voluntary retirement. Apart from normal retirement benefits, employees opting for voluntary retirement will be entitled to an ex-gratia payment of 60 days salary (basic and dearness allowance) for each completed year of service or payment of salary for the remaining period of service left before retirement, whichever is lower. As the scheme has not closed as of September 24, 2001, the Company is unable to accurately predict the cost of the scheme.

Board of Directors

S.K. Gupta
Chairman and Managing Director

Shri S.K. Gupta took over as the Chairman and Managing Director of Videsh Sanchar Nigam Limited on September 7, 1999. He had been the Chief General Manager of the Gujarat Telecom Circle at Ahmedabad since October 1997.

Shri Gupta belongs to the 1964 batch of the Indian Telecom Service and has held various responsible positions in the Department of Telecom in the fields of planning, installation, operation, maintenance and training. His important postings have included those as Principal General Manager, MTNL New Delhi; General Manager Telephones, Jaipur; District Manager Telephones, Allahabad; and Director at the Advanced Level Telecommunication Training Centre, Ghaziabad. He graduated in Electrical Engineering from the University of Roorkee, where he was a gold medallist.

He was trained at Japan in C-400 cross bar systems and at the University of Essex, U.K., in Computer Software Engineering.

Shri Gupta has travelled extensively around the world, representing VSNL in various international fora and has been closely associated with various international bodies like CTO, Asia Pacific Telecommunity and SAARC. He was elected to the Board of the privatised INTELSAT as a Director in July 2001. Shri Gupta has drawn up and implemented new strategies that have kept VSNL in its premier position. A landmark achievement was in August 2000, when he helped VSNL become the first Indian PSU to list on the New York Stock Exchange (NYSE).

Rajneesh Gupta
Director (Network)

Shri Rajneesh Gupta, an Indian engineering service officer of the 1970 batch, was born at Moradabad in 1948.Shri Gupta took over as Director (Network), on the board of VSNL on November 23,1998, a post which was created for the first time at VSNL. Prior to that, Shri Gupta was a General Manager with Mahanagar Telephone Nigam Limited, at its corporate office. There he was in charge of planning and procuring high-tech items for the telephone giant. Before that, he was responsible for operations and planning of MTNL's South Delhi Network, as Area General Manager.

Shri Gupta has held several key posts in the Ministry of Education, Government of India. He was also the Chief General Manager (Task force), DoT, Guwahati. He was deputed by the Government of India to Muscat (Government of Oman) for a period of five years (1975-80).

Shri Gupta is presently based in New Delhi and looks after international carrier relationships, an important revenue earning area for VSNL. He is also in-charge of the northern and eastern regions of VSNL's operational activities.

R.S.P. Sinha
Director (Finance)

Shri R.S.P. Sinha is a B.Sc. in Electrical Engineering. He also holds degrees in Business Management, Banking and Law and is a member of the Institute of Cost & Works Accountants of India (ICWA). Born on September 21, 1951, Shri Sinha started his career in 1975. He served several organisations in various capacities before taking over as Director (Finance) at Hindustan Organic Chemicals Limited, Rasayani in 1994. He was instrumental in successfully completing that company's first public issue of Rs.1 billion in September 1994, which was over-subscribed 13 times.

Shri Sinha took over as Director (Finance), VSNL on January 14, 1999. He was actively associated with VSNL's GDR Issue-II of US$ 185 million and its domestic retail offering of Rs.750 million, which formed a part of the government of India's disinvestment in 1999, as well as VSNL's US listing in the year 2000. Besides the finance function, he also heads the functions of the commercial division and of human resources development.

Subodh Bhargava
Director

Born in Agra in 1942, Shri Subodh Bhargava holds a degree in Mechanical Engineering from the University of Roorkee. He started his career with Balmer Lawrie & Co., Calcutta before joining the Eicher Group of Companies in Delhi in 1975. On March 31, 2000, he retired as the group chairman and chief executive and is currently an advisor to the group.

He is the past president of the Confederation of Indian Industry (CII) and the Association of Indian Automobile Manufacturers; and the vice president of the Tractor Manufacturers Association. Over several years, he was therefore a key spokesperson for Indian industry, contributing to and influencing government policy while simultaneously working with industry to evolve new responses to the changing environment.

He is a member of the Insurance Tariff Advisory Committee, the Economic Development Board of the government of Rajasthan and the board of governors of the Centre for Policy Research.

He is the chairman, of the National Accredition Board for Certifying Bodies (NABCB) under the aegis of the Quality Council of India (QCI). Shri Bhargava has been closely associated with technical and management education in India. He was the chairman of the Board of Apprenticeship Training and member of the Board of Governors of the University of Roorkee. He is currently on the Board of Indian Institute of Management, Indore; the Indian Institute of Foreign Trade, New Delhi and the Entrepreneurship Development Institute of India, Ahmedabad. He is on the Boards of Governors of other institutions for Graduate Engineering and bachelors and masters degree programmes in Business Management. Presently, he is also a member of the senior panel of the All India Council for Technical Education (AICTE) set up for a comprehensive evaluation of research in engineering and technology; and on the committee set up by the Ministry of Human Resource Department, Government of India for Policy Perspectives for Management Education in India.

Ashok Wadhwa
Director

Shri Ashok Wadhwa is an expert at advising transnationals on establishing a business presence in India. He is the Managing Partner of RSM & Co. and the Managing Director of Ambit Corporate Finance Pte. Ltd. He holds law and commerce degrees from Bombay University, and is a chartered accountant as well as a qualified company secretary. Until July 1997, he was the managing partner of Arthur Andersen, Mumbai, and had been with the company since 1983, when he was recruited as Arthur Andersen's first professional employee.

Shri Wadhwa has led common cause petitions on behalf of industry and professionals with government departments and taken a lead role in industry associations. He has presented proposals to the government on industrial policy rationalisation, privatisation and concerns of foreign investors, and has spoken at several seminars on related topics.

Shri Wadhwa has received several awards and commendations in recognition of his excellence in the field of finance, from organisations including the Bombay Chartered Accountants Society, World Strategy Forum, India Calling, Rotary Club of Bombay and the Brand Equity Summit. In September 1998, Ashok was felicitated by the Priyadarshni Academy for his contribution in the field of financial management, and in December 1998 received the Udyog Mitra Award for his excellent leadership in promoting national productivity and prosperity.

N.R. Narayana Murthy
Director

Shri Narayana Murthy was born on August 20, 1946 in Karnataka, India. He obtained a Bachelor of Electrical Engineering (B.E.) degree from the University of Mysore in 1967 and a Master of Technology (M.Tech.) degree from the Indian Institute of Technology (IIT), Kanpur in 1969. He has worked at the Indian Institute of Management (IIM) - Ahmedabad, SESA - Paris, the Systems Research Institute – Pune and Patni Computer Systems Pvt. Ltd. (PCS) - Mumbai.

He founded Infosys in 1981 along with six software professionals and has been its chairman and chief executive officer since. He was also the managing director of Infosys until February 1999. Today, Infosys is acknowledged as a highly respected and innovative company. In March 1999, it became the first Indian registered company to be listed on an American stock exchange.

Shri Murthy designed and implemented the country's first BASIC interpreter and first time-sharing operating system. He is a member of the National Information Technology Task Force of India, and the prime minister's Council on Trade and Industry. He is on the governing councils of several Government of India institutions, besides being a director on the boards of the ICICI Limited and the India Growth Fund Inc. Shri Murthy has been featured in the *Asiaweek Power 50* (June 2000) - a list of Asia's most powerful people; named by *Business Week* as one of 1999's top entrepreneurs, and as one of the 'The Stars of Asia' in 1998, 1999, & 2000; chosen as the *Business India's* "Businessman of the Year 1999" and as the Asia recipient of the 1999 Emerging Markets CEO of the Year Award, given by *Emerging Markets* and ING Barings. He has been awarded the JRD Tata Corporate Leadership Award for 1996-97; the Rastrabhushan award from the FIE Foundation for the year 1997; the Madras Management Association Business Leadership Award in 1998; and the Distinguished Alumni Award for 1998 by IIT, Kanpur.

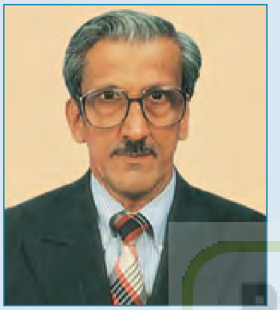
H.P. Wagle
Director

A Bachelor of Engineering and Telecommunications, University of Poona, Shri Hari Prabhakar Wagle is also Fellow, IETE, India.

Born on September 26, 1935, Shri Wagle first taught Radio Engineering at the College of Engineering, Poona. He joined P&T in May 1958. Between 1960-70, he was Scientific & Technical Officer/Assistant Director, Telecom Research Centre (Radio Engineering/Microwave Group), New Delhi. Since then Shri Wagle has held several key posts, including those as Director (Microwave Projects), Director (Inspections), DGM (Network Management) and DDG (Long- Distance Maintenance), Telecom. He has been the CGM at Gujarat Telecommunication, Ahmedabad and Director on Board MS/ GCEL, Baroda.

Shri Wagle has also been Member Services, Telecom Commission, New Delhi, and Director General, Telecommunication.

He was Chairman, Telecom Commission and Secretary, Department of Telecommunications, Government of India before superannuation.



P. V. Vaidyanathan
Director

Shri. P. V. Vaidyanathan belongs to the 1965 batch of Indian Telecom Service. He holds a first class bachelor's degree in Electrical Engineering from the college of Engineering, Guindy, Chennai and a master's diploma in Public Administration from the Indian Institute of Public Administration, New Delhi. He also has an advanced diploma in French and has undergone specialised training in digital techniques/electronic switching/cellular technology.

Shri Vaidyanathan has had 35 years experience in the planning, installation, operation, maintenance and administration of telecom networks. He has also had international experience, having worked for five years in French-speaking African countries, first as Advisor to the government for a training project and later as Project Coordinator for the United Nations (I.T.U.) for the installation of digital switching/transmission equipment and local network.

Presently, he is the Advisor (Technology) in the Telecom Commission, Government of India, looking after technology related issues. In this assignment, he also looks after and is also the nodal officer for the Telecom Engineering Centre and C-DOT.

Smt. Sadhana Dixit
Director

Smt Sadhana Dikshit is currently the Deputy. Director General (LF) in the Department of Telecom. Smt Dikshit took over as Director on the Board of VSNL w.e.f 22 January 2001.

Smt. Dikshit holds a master degree in English (Literature) from the University of Pune and attended a one-year management programme on "National Security and Strategic Studies" at National Defence College, New Delhi. She is an officer of the P&T Accounts and Finance Service and was selected through the IAS etc. exams, 1975. She has over 25 years of experience in the telecom sector in the diverse fields of finance management, tariffs & Accounts.

Smt. Dikshit has held several important assignments including Director (Finance) & IPA of the erstwhile Bombay Telephones, Director (Staff) P&T AFS in Telecom Directorate, Director (Tariff & Costing) and subsequently DDG (Tariff & Costing) DOT and DDG (TRF). She was a government nominee on the board of Telecom Consultants India Ltd. (TCIL). She was also part of the group managing the licensing of the telecom services.

Smt. Dikshit participated in various ITU meetings including the WATTC meeting and various study group 3 meetings of the Telecom Standardisation Bureau held in Geneva (Switzerland). She presented papers in the TAS group meeting held in Delhi. She attended a number of specialised seminars and international workshops on telecom privatisation and policy. Smt Dikshit participated in the technical coordination committee meeting of the SAARC countries held in Dhaka and Kathmandu. She was also a member on various committees including the committee on tariff setting for new services, review of training of accounts and finance service officers, and licensing matters. She was awarded the Sanchar Vikas Ratna award for her outstanding contribution in the field of Telecom Accounts and Finance.

Corporate Details

Board Of Directors

CHAIRMAN & MANAGING DIRECTOR
Shri S.K. Gupta

DIRECTOR (NETWORK)
Shri Rajneesh Gupta

DIRECTOR (FINANCE)
Shri R.S.P. Sinha

DIRECTOR
Shri Subodh Bhargava

DIRECTOR
Shri Ashok Wadhwa

DIRECTOR
Shri N.R. Narayana Murthy

DIRECTOR
Shri H.P. Wagle

DIRECTOR
Shri P. V. Vaidyanathan

DIRECTOR
Smt Sadhana Dikshit

COMPANY SECRETARY
Shri Satish Ranade

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M/s. Kalyaniwala & Mistry
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127 Mahatma Gandhi Road
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BRANCH AUDITORS

Eastern Region
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32B, Ganesh Chandra Avenue,
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Southern Region
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102 Mylapore,Chennai - 600 004.

Northern Region
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Daryaganj, New Delhi 110 002

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'Mulla House'
51, Mahatma Gandhi Road
Mumbai - 400 001.

M/s. Little & Company
Central Bank Building
Mahatma Gandhi Road
Mumbai - 400 001.

BANKERS

Indian Overseas Bank, Mumbai
Bank of Baroda, Mumbai
Canara Bank, Mumbai
State Bank of India, Mumbai
HDFC Bank Mumbai

REGISTRARS & TRANSFER AGENTS

M/s Sharepro Services
Satam Estate, 3rd Floor,
Above Bank of Baroda, Chakala
Andheri (East), Mumbai - 400 099.